2002-03 Budget

Meeting the Challenge for Saskatchewan People

Saskatchewan's 9th consecutive balanced budget focuses on priority funding for health care, education and economic development. At the same time, it addresses the public's desire for lower income taxes and leaner, more efficient government.

Meeting the Challenge for Saskatchewan People strikes the right balance between available revenue and public demands.

A Leaner Government ✓

- A smaller, more efficient government through elimination of five government departments
- Reduction of more than 300 public service positions
- Anticipated savings of more than $40 million over two years

Health ✓

- $2.3 billion for health – a $129 million, 5.8 per cent increase over 2001–02
- Increasing health research funding from $5.2 million to $9.2 million, an increase of almost 80 per cent
- $10 million for medical equipment
- $24 million for capital improvements and construction

Education ✓

- $1.2 billion for education – a $78.6 million, 7.2 per cent increase over 2001–02*
- A capital expenditure program of $40 million for K–12 schools and $50 million for the two universities, SIAST and regional colleges for building improvements

Building Better Roads ✓

$300 million for more than 700 km of reconstruction and paving work on highways, including:

- Completing 24 km of twinning on Highway No. 1 West
- Reconstructing 150 km of Thin Membrane Surface (TMS) highways in rural Saskatchewan to a paved standard
- Resurfacing 370 km of paved highways

* $1.2 billion includes $90 million in grants and loans for capital projects

Research and Technology ✓

- Almost $132 million for research and development in the areas of agriculture (biotechnology), education, medicine, health care, and natural resource extraction and processing

Agriculture ✓

- Increased funding for crop insurance of $14 million
- $3.9 million for farmers participating in the Conservation Cover Program
- $4.35 million for the Family Farm Opportunities Initiative

Tax Reform ✓

- 2002 is the fifth consecutive year Saskatchewan residents will see personal income tax rates go down
- In 2002, an average Saskatchewan family will pay almost one-third less income tax than in 1993, an annual reduction of more than $1,300

Creating Jobs and Investment ✓

- Encouraging Saskatchewan jobs and investment by increasing the Corporation Capital Tax exemption to as high as $15 million
- Building on last year's small business tax reductions by simplifying tax filing and remittance
- Effectively eliminating the Fuel Tax on ethanol produced and sold in the province

Safe and Healthy Communities ✓

- Finalizing a Long-Term Drinking Water Strategy, to ensure Saskatchewan people are drinking clean, safe water
- An additional $7.3 million for policing – to fully fund RCMP operations and provide for 26 new police officer positions, including 14 municipal officers and 12 new RCMP positions.
- $10 million or 18.2 per cent increase in revenue sharing grants to urban, rural and northern municipalities
- $756,000 in new funding for the Northern Health Access Program, providing opportunities for Aboriginal people and Northerners to obtain the skills necessary to enter the health profession

All budget material is available online:
www.gov.sk.ca/finance/budget

Government of
Saskatchewan

SASKATCHEWAN

The Hon. Eric Cline
Minister of Finance

Meeting the Challenge for Saskatchewan People

Budget

2002-03

102-04972/

Table of Contents

Budget 2002–03

Introduction

Meeting the Challenge for Saskatchewan People 2

Updates

Personal Income Tax Reform 10
Health 13
Education, Technology and Transportation – Budget to Budget .. 14

Technical Papers

General Revenue Fund 2002–03 20
Saskatchewan's Economic Outlook 23
Saskatchewan's Financial Outlook 26
2002–03 Revenue Initiatives 29
Saskatchewan's Tax Expenditures 33
2002 Intercity Comparison of Taxes and Household Charges 37
2002–03 Borrowing and Debt 41

Budget Details

Statement of Revenue, Expenditure and Accumulated Deficit ... 50
Statement of Cash Flow 51
Schedule of Revenue 52
Schedule of Expenditure 53
Schedule of Borrowing Requirements 54
Schedule of Debt 55

Introduction

Meeting the Challenge for Saskatchewan People

The Government of Saskatchewan has, over the past decade, followed a balanced budget approach to financial management, and Budget 2002–03 continues that tradition.

The challenge for Budget 2002–03 was to address the priorities of Saskatchewan people – particularly health and education – without compromising previous commitments and initiatives.

The budget challenge was significant due to the slowdown in economic growth experienced across North America in 2001. The economic situation was compounded in Saskatchewan due to a severe drought, low oil prices and the softwood lumber dispute. At the end of the 2001–02 fiscal year revenues are forecast to be $84 million less than projected.

The Fiscal Stabilization Fund (FSF), which was designed as a buffer for the province's fiscal position, was used for that purpose in 2001–02 and will be used in 2002–03 and 2003–04 to provide a cushion while the economy gains strength over the next several years.

With reduced economic prospects for 2002–03, difficult budget choices had to be made. The goal was to hold the line on spending while at the same time support the province's key priorities, including health care, education, economic development and highway improvement.

Highlights of this year's budget include a major reorganization of government, more money for health and education and tax measures to encourage private sector economic development. The budget also contains community-focused initiatives including more money for policing, incentives for ethanol production, and increases in revenue sharing grants to urban, rural and northern municipalities.

This budget looks beyond 2002–03, taking steps that will enhance the province for the next decade – to ensure Saskatchewan is seen as a great place to live, invest and do business.

Saskatchewan's Action Plan

The government's plan to expand the economy and create new opportunities is based on four pillars:

- Investment in the economy and the environment;
- Investment in infrastructure;
- Provision of quality education; and
- Healthy and self-reliant families.

Budget 2002–03 is based on these pillars.

> "Budget 2002–03 is Saskatchewan's 9th balanced budget."

Refocusing Government and Staying Competitive

The government is undertaking organizational change to help better meet the province's economic and social priorities. While the changes will reduce administrative costs, the main objective is to refocus on efficiently and effectively delivering basic government services.

The reorganization includes combining several departments and sections of departments. For example, part of the reorganization will bring a number of economic development functions together. This amalgamation adds more service offices in the province for the energy and mining industry with no added cost to taxpayers. At the same time it creates opportunities for increased partnerships between the forestry, mining, energy, high technology and manufacturing sectors.

The reorganization will increase the effectiveness of government and its responsiveness to the public. The amalgamation of similar functions will result in significant cost savings. The planned reorganization is projected to save more than $40 million over two years.

Taxes

Now in the third year of a four year plan, personal income tax reductions announced in the 2000–01 budget continue on schedule. In 2002, an average Saskatchewan family will pay $1,314 less income tax than in 1993. Taxes are going down.

There will be no change in the Provincial Sales Tax. Of the nine provinces that have a sales tax, Saskatchewan's remains the lowest at six per cent.

The 2002–03 Saskatchewan budget builds on the government's strategy to attract and retain capital and promote investment and job creation in the province.

This strategy improves the competitiveness of Saskatchewan's tax system by focusing on the following objectives:

- Encouraging capital development and retention;
- Simplifying tax compliance for small businesses;
- Supporting research and development in Saskatchewan;
- Strengthening the value-added sector of the provincial economy; and,
- Retaining and attracting skilled labour to Saskatchewan.

As part of last year's budget, small business taxation was significantly reduced to improve the competitiveness of Saskatchewan's tax system:

- The small business Corporation Income Tax rate was reduced from eight to six per cent, effective July 1, 2001;
- The small business annual threshold was increased by 50 per cent to $300,000, effective January 1, 2002; and,
- Professionals were given the right to incorporate their practices.

Changes to the Corporation Capital Tax focus on Saskatchewan businesses and job creation. The current $10 million threshold that exempts smaller Saskatchewan corporations will increase to as high as $15 million for Saskatchewan-based companies. This will remove about 100 Saskatchewan corporations from the tax roll and encourage all taxable companies to employ more Saskatchewan workers.

"The planned reorganization is projected to save more than $40 million over two years."

Saskatchewan's tax strategy balances the need to fund public programs and services and promote provincial growth and job creation. This government will provide the fairest and most competitive tax plan possible, without jeopardizing public priorities.

A summary of the 2002–03 revenue measures as they apply to Saskatchewan businesses can be found on page 29 in this book.

Increases to the Tobacco Tax and the Liquor Consumption Tax in this budget will help provide the necessary resources to fund key public services, such as health and education. Governments across Canada are increasing their efforts and examining measures – including tax increases – to reduce the use of tobacco, and related health care costs.

These tax increases will result in additional annual revenue of more than $80 million for the province. Selected government fees and charges will also be increased to approach cost-recovery levels.

Funding for Health Care

Our health and our quality of life are undeniably linked, and, as such, building our health system remains a top priority. Everyone, at some point, relies on the health system.

Health care in this province and in this country is a source of pride. More public dollars are spent on providing health care in Saskatchewan than any other service, approximately 41 per cent of all program spending.

> "This budget's commitment to health care increases funding for health research from $5.2 million to $9.2 million, an increase of almost 80 per cent."

Health spending for the 2002–03 fiscal year will increase by $129 million or 5.8 per cent. This funding will allow the province to move forward on *The Action Plan for Saskatchewan Health Care* released in December 2001.

The Action Plan for Saskatchewan Health Care includes:

- Primary health care teams of doctors, nurses and other health providers to provide accessible, front-line care to people across Saskatchewan;
- A 24-hour toll-free telephone line offering convenient, immediate access to health advice;
- New funds to improve management of surgical waiting times based on patient need;
- Funding to upgrade the skills of 240 new or existing emergency medical responders to emergency medical technicians over the next three years;
- Canada's first Quality Council, to promote excellence and effective health spending; and,
- 12 Regional Health Authorities to replace the current 32 health districts, reducing administration and improving planning.

This budget's commitment to health care increases funding for health research from $5.2 million to $9.2 million, an increase of almost 80 per cent. Innovative health research is vital, and this type of monetary support will encourage the health care system to evolve. The budget also provides $10 million for medical equipment and $24 million for capital improvements and construction.

Health care costs are rising dramatically across Canada. Although Saskatchewan's health budget is $129 million higher this year, several new measures to reduce expenditures are reflected in this budget, including changes in long-term care fees and the drug plan. Many people will be asked to pay more in both of these areas, although government will continue to shelter those with lower incomes.

Emphasis on Education

Saskatchewan's plan for prosperity includes an emphasis on learning. To that end, $1.2 billion is dedicated to education in this budget.* Through the newly created Education Infrastructure Financing Corporation, Saskatchewan's education system will see substantial activity in building new and upgrading existing facilities.

The post-secondary capital budget for new and upgrades to teaching, learning and research infrastructure is $50 million, a 65 per cent increase. These funds will be used at the province's two universities, SIAST and regional colleges. The K-12 capital budget of $40 million, also increased by 65 per cent, will fund significant infrastructure improvements across Saskatchewan.

The future of Saskatchewan is dependent on developing its human potential. The government is committed to developing its children, youth and adults, making them life-long learners so they can contribute to and benefit from the Saskatchewan economy.

* $1.2 billion includes $90 million in grants and loans for capital projects

Building Better Roads

The transportation system is key to Saskatchewan's economic success as it provides the province with a reliable and safe means of movement for goods and people.

Saskatchewan has more road surface than any other province in Canada, with over 190,000 km of highway and municipal roads. Improvements and new developments are balanced by the fact that roughly 70 per cent of all vehicle travel in Saskatchewan occurs on just six per cent of the province's roads.

This year's budget of $300 million will help ensure that any journey within the province is a safe one, and it keeps the government's three-year $900 million commitment to our transportation system.

Notably, 24 km on Highway No. 1 West will be completed this year, with complete twinning of Highway No. 1 West to the Alberta border to be finished by 2004. As well, 150 km of Thin Membrane Surface (TMS) highways in rural Saskatchewan will be reconstructed to a paved standard, and 370 km of pavements will be resurfaced. All told, taking into consideration partnership projects and grading work, more than 700 km of highways will see reconstruction and paving work this year.

"The future of Saskatchewan is dependent on developing its human potential."

Along with tax reform, Budget 2002–03 also provides new economic initiatives to keep Saskatchewan competitive. Building on the record of growth that Saskatchewan achieved during the past decade, additional growth initiatives are being put in place for the future.

Budget 2002–03 commits almost $132 million for research and development (R & D) ventures. Research, experimentation and exploration of ideas and proposals benefit the province beyond job creation and economic investment. R & D gives birth to unexpected advantages, revelations and opportunities.

R & D Expenditures include:

- $20 million in R & D activities by government departments and agencies like the Saskatchewan Research Council;
- Increasing funding for health research from $5.2 million to $9.2 million, an increase of almost 80 per cent;
- $34 million provided by the Province to fund specific research and development activities by third parties, particularly the universities;
- More than $62 million in research and infrastructure activities at the universities, funded through their operating grants; and,
- More than $6 million in tax incentives to encourage private sector R & D in the province.

In response to the devastating drought that has threatened the majority of Saskatchewan's farmland and pastures, the province's contribution to crop insurance has been given a boost of $14 million, from $95 million to $109 million. Crop insurance helps provide the necessary assistance to protect vulnerable Saskatchewan farm families.

Taking advantage of the unique make-up of this province has led to the creation of the Action Committee on the Rural Economy (ACRE). This committee will shortly be releasing its findings after months of candid consultation and review. It is fitting that the grandchildren of this province's pioneers will shape our plan for rural renewal.

The Saskatchewan Conservation Cover Program, which encourages farmers to convert marginal farm lands to perennial cover, will receive $3.9 million. As well, the Family Farm Opportunities Initiative will continue with $4.4 million in funding. This money will be used to help farmers assess their situation, improve their skill set, and undertake diversification and development initiatives on their farms. Both initiatives make a difference in the lives of farmers.

The government has also just announced its decision to effectively eliminate the Fuel Tax on ethanol that is both produced in Saskatchewan and sold in the province as part of a motive fuel blend. This initiative will encourage Saskatchewan production of an environmentally friendly fuel alternative.

This initiative is expected to result in new jobs and new investment in the province for both ethanol production facilities as well as integrated livestock feedlot operations. The ethanol initiative builds on the success of our existing ethanol producer and feedlot operation at Poundmaker AgVentures in Lanigan. It is expected that the new program will experience similar success in communities across Saskatchewan.

From clean air to clean water – this government takes seriously the health of its citizens and environment. The province is awaiting Justice Laing's report on the North Battleford Water Inquiry before finalizing a Long-Term Drinking Water Strategy for Saskatchewan. The strategy will provide measures to help ensure all Saskatchewan residents are drinking clean, safe water.

The Government is pleased to be able to assist urban, rural and northern municipalities even more this year, through a $10 million, 18.2 per cent increase in municipal revenue sharing.

This budget also provides an additional $7.3 million for policing – to fully fund RCMP operations and provide for 26 new police officer positions, including 14 municipal officers and 12 new RCMP positions. Spending on police has increased by more than $18 million since 1999.

In addition, this budget funds a $1.2 million program, started in 2001–02, for the development of specialized RCMP radio communication systems and mobile workstations. The systems will allow officers to spend less time on paperwork, and approximately 20 per cent more time on the street. This is a $12 million investment over 10 years.

Collaboration between municipalities, the province and our law enforcement agencies will result in safer communities for Saskatchewan people.

The province of Saskatchewan is not the only province that experienced an economic slowdown, but it is important to put the situation in the appropriate context. There are good reasons to be optimistic that higher economic growth is just around the corner and with a more diversified economy than ever before we are well positioned for the future.

Pulling it Together

Decisions made over the last 10 years have created a firm foundation upon which to build.

We have created a strong base for future economic growth by developing an attractive, progressive tax climate.

We are refocusing and streamlining government services to improve service delivery to Saskatchewan citizens and businesses.

A solid transportation infrastructure continues to be built to foster province-wide economic growth.

There will be more police officers on the streets throughout the province to ensure the safety of our people and businesses.

We are developing a safe drinking water strategy.

We are taking advantage of the unique resources in Saskatchewan and creating innovative economic strategies that will help grow our economy.

We are continuing our approach of sound financial management and implementing a budget that is right for this province.

Budget 2002–03 will meet the challenge and create the conditions necessary to ensure we preserve this province's well-being and success.

2002–03 Updates

Update on Personal Income Tax Reform

In March 2000, Saskatchewan embarked on a major, multi-year reform of its personal tax structure to create a simple, fair and competitive tax system that will lower taxes for all Saskatchewan residents, especially families with children. This reform enhances the opportunity for economic growth by encouraging people to live and work in Saskatchewan, raise their families here and contribute to the provincial economy.

Making Progress

Personal income tax reform began in 2000 with a reduction in the rate of the Saskatchewan Flat Tax. Tax reform continued in 2001 with the introduction of a new way to calculate provincial income tax. The Flat Tax, Debt Reduction Surtax and High Income Surtax were all eliminated as part of the transition to the new tax system.

Provincial income tax is now determined by applying provincial tax rates directly to taxable income and then deducting provincial tax credits. The provincial tax credits parallel the existing federal credits, except that the basic and spousal amounts have been increased to $8,000. In addition, the provincial tax system provides a supplement to the age credit and a new dependent child credit.

The income tax reform plan included further tax reductions in each of the 2002 and 2003 taxation years, through reductions to income tax rates and increases to the senior supplement and dependent child credit amounts, as set out in the table below.

The 2002 changes have already been implemented and the 2003 changes are on track for implementation on January 1, 2003. At that time, the income tax brackets will be significantly expanded, providing tax savings for middle income earners.

Saskatchewan's Personal Income Tax System

	2001	2002	2003
Income Tax Rates (on taxable income)	11.5% on first $30,000 13.5% on next $30,000 16.0% on remainder	11.25% on first $30,000 13.25% on next $30,000 15.5% on remainder	11.0% on first $35,000 13.0% on next $65,000 15.0% on remainder
Special Tax Credit Amounts			
Basic / Spousal	$8,000	$8,000	$8,000
Senior Supplement	$500	$750	$1,000
Dependent Children	$1,500/child	$2,000/child	$2,500/child

Focus on Families

Personal income tax reform means all Saskatchewan residents are paying lower income taxes, with thousands of lower income residents being removed from the income tax rolls. The introduction of the new tax structure in 2001, with its higher family tax credits, provides significant tax savings for families.

So far, the tax reform plan has reduced the provincial income taxes of an average Saskatchewan family by over $850. Income tax reform will be fully implemented on January 1, 2003, and will bring this family's annual tax savings to over $1,000.

Tax Reductions Since 1993

Since 1993, the average Saskatchewan family has seen a significant reduction in provincial income taxes, as depicted in the chart at the bottom of this page.

Saskatchewan Income Tax Reform

Cumulative Income Tax Savings

	2000	2001	2002	2003
Two-Income Families:				
$35,000	$223	$410	$561	$703
$50,000	$348	$662	$854	$1,035
$75,000	$640	$1,074	$1,336	$1,682
One-Income Families:				
$35,000	$313	$1,013	$1,173	$1,423
$50,000	$551	$1,511	$1,713	$2,001

Reducing Saskatchewan Income Taxes

Two-Income Family of Four Earning $50,000

Protecting Saskatchewan People

Personal income tax reform also provides inflation protection for Saskatchewan residents through the indexation of the income tax brackets and the tax credits. For the 2001, 2002 and 2003 taxation years, the tax reform plan reduces Saskatchewan's personal income tax rates, expands the provincial income tax brackets and increases the special Saskatchewan tax credit amounts in support of the family. Tax credits that acknowledge the special circumstances of the disabled and students were significantly increased as part of last year's budget.

Last year's budget also announced that Saskatchewan's income tax brackets and special tax credit amounts in support of the family would be indexed to changes in the national Consumer Price Index (CPI) once the phase-in of the new tax structure is complete in 2003. Other elements of Saskatchewan's income tax system are already indexed to national CPI. As a result, a number of tax credit amounts are increased for the 2002 taxation year, including the age and disability-related credit amounts, as depicted in the table below.

Improving Competitiveness

Personal income tax reform results in a major improvement in the competitiveness of Saskatchewan's tax system.

One of the most significant improvements in competitiveness is the reduction which is occurring in marginal tax rates, which is the rate at which the taxpayer pays income tax on the next dollar of income earned. Saskatchewan's top marginal tax rate under the pre-reform tax system was equal to 19.9 per cent. Under reform, the top marginal rate will decline by 4.9 percentage points to 15.0 per cent, the third lowest rate in Canada.

While this improvement is dramatic, the marginal tax rate of an individual earning $50,000 also declines significantly, from 18.1 per cent to 13.0 per cent.

Vision for the Future

The Government of Saskatchewan is committed to improving Saskatchewan's economic climate for growth and opportunity.

Personal income tax reform is a multi-year undertaking which is a central part of the Government's plan to encourage the economic growth needed to build a stronger, more prosperous Saskatchewan for all to enjoy.

Selected Saskatchewan Non-Refundable Tax Credit Amounts

	1999	2000	2001	2002
Basic personal amount	$6,794	$7,231	$8,000	$8,000
Spousal/Equivalent amount	$5,718	$6,140	$8,000	$8,000
Age amount	$3,482	$3,531	$3,619	$3,728
Senior supplement	n/a	n/a	$500	$750
Dependent child amount	n/a	n/a	$1,500	$2,000
Disability amount	$4,233	$4,292	$6,000	$6,180
Caregiver amount	$2,353	$2,386	$3,500	$3,605
Education amounts	$60/$200	$60/$200	$120/$400	$120/$400

Update on Health

Healthy People, Healthy Province – Implementing our Plan

Health care in Saskatchewan is based on the concept that we can improve the quality of health services and access to care while ensuring a sustainable health system. *The Action Plan for Saskatchewan Health Care* contains the steps to take now and into the future to improve the health care system.

The plan was developed based on the findings of the Fyke Commission on Medicare and the Saskatchewan Legislature's Standing Committee on Health Care. Consultations with the public confirm a shared belief that a publicly funded health system should remain in place. The rapidly growing cost of health care will continue to create pressure on our budget, but our province has taken on the challenge of creating the most value for each and every health dollar.

A Province's Health – Our Top Priority

Saskatchewan people believe in a health care system that cares for those it serves regardless of their ability to pay. But changes are needed to sustain this publicly-funded, publicly-administered health care system into the future.

Since 1995–96, health care spending in Saskatchewan has grown by over 50 per cent, well above the province's rate of economic growth. Overall provincial spending on health care will total more than $2.3 billion this year, or about 41 per cent of all government program spending.

One of the government's top priorities is improving the quality of health services and access to care, while ensuring the health system is sustainable into the future.

We must work together to make the system more effective, efficient and accountable to the people it serves. That's why the government introduced *The Action Plan for Saskatchewan Health Care*, a blueprint for the future of health services in Saskatchewan.

This budget provides the resources required to move forward on several key initiatives outlined in the plan, such as retaining and recruiting health providers, managing waiting times for surgery and improving access to primary health care services across Saskatchewan.

Addressing these priorities meant making difficult choices on prescription drug and long-term care costs. Many people will be asked to pay more in both of these areas, although government will continue to shelter those with lower incomes.

The 2002–03 Budget provides:

- A 5.8 per cent increase over the 2001–02 budget to a total of $2.3 billion, the most ever spent on health care services in Saskatchewan;
- Funding to expand primary health care networks across the province, including the establishment of a 24-hour health care advice line;
- New funds to improve management of waiting times based on patient need;
- Additional investments to support the retention and recruitment of health care providers; and,
- New funding in other priority areas such as health research, the creation of a Quality Council, and new medical equipment.

These measures put Saskatchewan on the right track to improving the quality of the health care system for its residents now, and into the future.

Update on Education, Technology and Transportation – Budget to Budget

The slowdown in the global economy this past year did not stop this province from making progress on its 2001–02 initiatives. Last year's budget set out to give Saskatchewan the tools to plug-in, participate, communicate and compete – and it did just that.

The government invested substantial funding into education, transportation and technology initiatives. While most programs need more than a year to be fully implemented and to measure results, every program must start somewhere. 2001–02 was the appropriate time to build new and diversified programs and services.

Realizing Educational Goals

Last year's investment in education was the largest in provincial history – more than $1 billion. The government worked with various education sector partners to provide a first-rate learning environment.

K–12

The Community Schools Program provides a range of support to address the complex needs of at-risk students. Students and their families can access programs and information focusing, for example, on nutrition, parenting skills, adult education and cultural activities.

In 2001–02, 42 new Community Schools opened their doors in Saskatchewan. Of these, 15 were in rural areas and 1 was in the North. This brings the total number of Community Schools to 83, including 11 in the North. As well, 35 additional Prekindergarten programs were opened in Community Schools, bringing the total to 79 programs in the province.

Last year, $1 million in school operating grant funding was targeted at teacher recruitment and retention in high-need areas. These include in-school administration, mathematics, physics and chemistry, technology, practical and applied arts, special needs and Aboriginal education, including Native Studies and languages. The new initiatives include bursaries for teachers seeking to further their skills in these "high-need" areas. Bursaries are allocated on a cost-shared basis with school boards.

Developments in Aboriginal Education focused on building and renewing successful partnerships between the educational and Aboriginal communities. Separate partnerships were renewed with the Prince Albert Grand Council and the Meadow Lake Tribal Council. Exciting new partnerships were signed with the Battlefords Tribal Council and with the File Hills Qu'Appelle Tribal Council and the Regina Métis Local. As well, the department led planning for an Aboriginal languages web site in collaboration with other western provinces.

Post-Secondary

Budget 2001–02 provided for many initiatives in education and skills training.

More than $4 million was used to develop technology-enhanced learning and Campus Saskatchewan, a partnership including Saskatchewan's post-secondary institutions and government. Of that, $2.1 million went to Saskatchewan universities, SIAST, regional colleges and Aboriginal institutions and other learning resources, bringing the number of online courses available or in production to about 150. The remainder of the funding was directed to faculty development, learner services and development of the Campus Saskatchewan web site, which will be launched soon.

Last year's investment also provided specific funding to increase new training opportunities for Aboriginal people in apprenticeable trades.

In 2001–02, significant improvements were also made to the Student Aid Program focusing on interest relief and debt reduction:

- Interest Relief Benefit increased from 18 months to 54 months; and,
- Student loan debt cancellation for students who become permanently disabled while in school or within six months after finishing their studies, with the disability leaving the student unable to work after post-secondary studies.

Last year's budget also provided 325 scholarship awards to students through the Centennial Merit Scholarship Program, providing support for first-year education and training at public institutions.

As well, Education tax credits were doubled to $400 per month for full-time students and $120 per month for part-time students.

Education continues to play an integral role in this year's budget, which is why the government has dedicated $1.2 billion, a 7.2 per cent increase over last year.*

Growing Saskatchewan – investing in Saskatchewan – starts with its youngest residents. Providing for quality education from kindergarten through university, focusing on skill development and training opportunities, helps secure a bright future for Saskatchewan students, and for the province overall.

* $1.2 billion includes $90 million in grants and loans for capital projects

Making the Connection

The use of technology is instrumental in the efficient delivery of Government programs and services. The basis for Saskatchewan's technology strategy can be found in CommunityNet.

In CommunityNet's first year, 530 educational facilities, 120 health facilities and 106 government offices were connected to high-speed Internet access. With partners SaskTel, the Saskatchewan Communications Network and the Government of Canada, CommunityNet is expanding the information highway.

CommunityNet and education go hand-in-hand. The government recognized the importance of CommunityNet to provide students in all types of learning environments with access to high-speed Internet. In 2001–02 the government provided an additional $2 million to help K–12 schools upgrade infrastructure to fully benefit from CommunityNet. A further $2 million is available in 2002–03.

On the K–12 side, CommunityNet not only informs students, but also supports teachers, especially those in rural areas, to meet the growing demand to provide instruction across an increasingly wider range of courses of study. When all schools have been connected, this province-wide network will allow sharing of curriculum resources, and also common software applications such as financial systems, student information systems, and automated library services.

In 2002, high-speed Internet will be introduced to Saskatchewan's eight Regional Colleges through CommunityNet. Each year, the Regional Colleges provide more than 30,000 education and training opportunities, including SIAST and University courses, to students in rural and northern Saskatchewan. High-speed Internet access will give these students access to more on-line learning opportunities and resources.

When fully implemented, CommunityNet will connect more than 800 educational facilities, including 86 First Nations schools. It will also connect 310 health facilities and 256 government offices in 366 Saskatchewan communities. SaskTel, with CommunityNet as the anchor tenant, will expand high-speed service to homes and businesses in 191 more communities over the next two years.

CommunityNet is an excellent example of the public sector and a Crown Corporation working together. When completed, the installation and expansion of this provincial network will ensure that people in both rural and urban areas are able to compete and thrive in the new knowledge-based, global economy.

Budget 2001–02 included the promise of an efficient E-Government system by 2004. Great strides have been made throughout the year in the area of online government forms and services.

For example, with the release of the Saskatchewan Electronic Tax Service (SETS), the Department of Finance provided the business community with an easy, convenient and safe alternative to paper filing. As well, the Queen's Printer introduced Freelaw ®. This service provides free access to up-to-date electronic versions of all Government of Saskatchewan Acts and Regulations, *The Saskatchewan Gazette*, and other legislative publications.

Building Better Roads

Maintaining an extensive road system like Saskatchewan's is always challenging. Saskatchewan Highways and Transportation received a significant investment in 2001–02 for strategic highway work, a $61.6 million or 24.7 per cent increase over 2000–01.

Last year the department:

- Improved/restored more than 700 km of the provincial highway system, including resurfacing 315 km of pavements and improving over 300 km of Thin Membrane Surface (TMS)* highways;
- Invested over $27 million to open 70 km of new twinned highway under the province's twinning commitment;
- Relocated, for safety and traffic flow reasons, the intersection of Highway No. 11 and Grasswood Road south of Saskatoon and started the second river crossing and associated works at the Battlefords;
- Invested over $35 million to operate, maintain and improve northern provincial highways and airports; and,
- Through the Strategic Rural Roads Program partnered with over 50 municipalities and businesses on 30 different projects addressing over 500 km of low-volume highway.

* TMS refers to highways surfaced 20–30 years ago with only a very thin layer of surface material. The intent was to provide a dust-free surface for light passenger traffic. Many of these highways have exceeded their lifespan, and are experiencing much heavier traffic than they were designed to carry.

Saskatchewan road builders enjoyed more work due to last year's transportation program. The department estimates the road building industry moved 72 per cent more granular material, and 93 per cent more asphalt concrete than in 2000–01 because of the expanded program, a large 2000–01 Winter Tender Schedule, an early spring start and good construction weather.

The department also delivered the $61.6 million budget increase with no increase in administrative expenditures.

The preservation, operation and construction of our transportation system remains a priority in Budget 2002–03, with over $300 million going to the department.

Saskatchewan Highways and Transportation remains committed to high quality roadways to facilitate economic growth. The government is on-track to meet its three-year $900 million commitment to highway improvements.

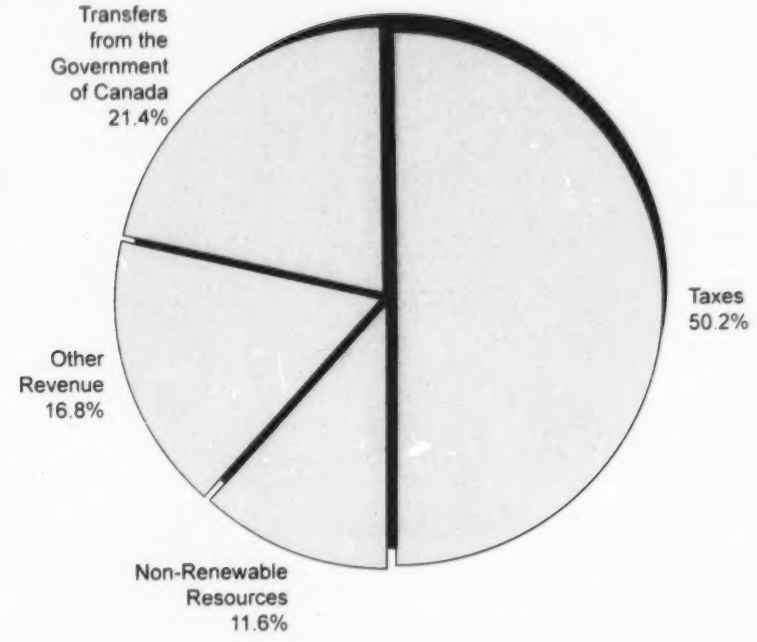
2002–03 Technical Papers

General Revenue Fund 2002–03

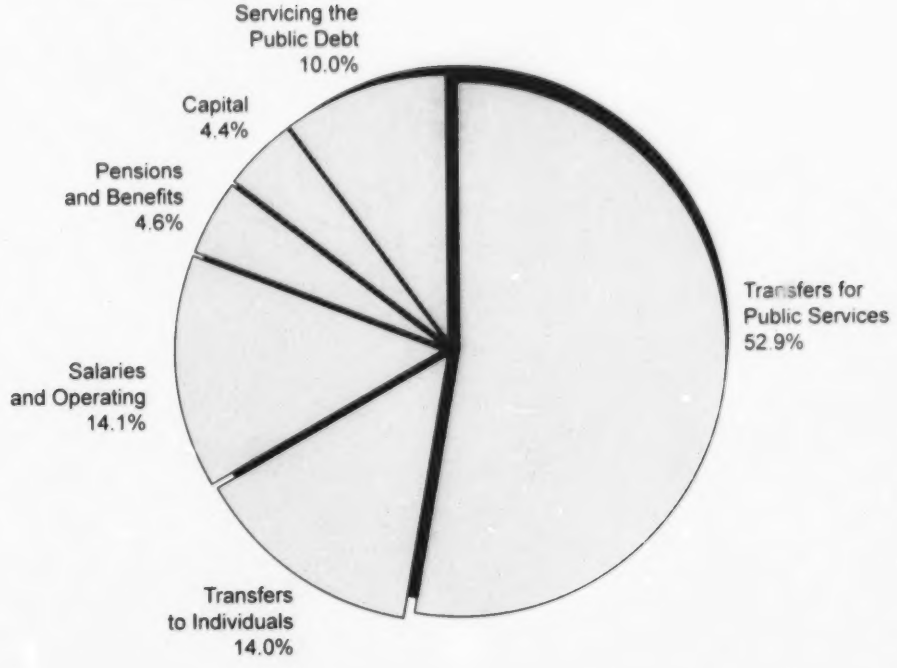
General Revenue Fund, Sources of Revenue

	Millions of Dollars	Per Cent of Total
Taxes		
Individual Income	$ 1,165.5	19.1%
Sales	826.9	13.6
Corporations	458.7	7.5
Fuel	357.7	5.9
Tobacco	182.5	3.0
Other	66.2	1.1
	$ 3,057.5	50.2%
Non-Renewable Resources		
Oil	$ 383.0	6.3%
Potash	202.6	3.3
Natural Gas	87.0	1.4
Other Minerals	38.2	0.6
	$ 710.8	11.6%
Other Revenue		
Dividends	$ 705.6	11.6%
Motor Vehicles	116.9	1.9
Charges for Services	68.3	1.1
Licences and Permits	41.8	0.7
Other	92.0	1.5
	$ 1,024.6	16.8%
Total Own-Source Revenue	**$ 4,792.9**	**78.6%**
Transfers from the Government of Canada		
Canada Health and Social Transfer	$ 638.3	10.5%
Equalization	530.7	8.7
Other Transfers	132.4	2.2
	$ 1,301.4	**21.4%**
Total Revenue	**$ 6,094.3**	**100.0%**

GRF: Sources of Revenue



GRF: Distribution of Spending


Servicing the Public Debt 10.0%
Capital 4.4%
Pensions and Benefits 4.6%
Transfers for Public Services 52.9%
Salaries and Operating 14.1%
Transfers to Individuals 14.0%

General Revenue Fund, Distribution of Spending

	Millions of Dollars	Per Cent of Total
Transfers for Public Services		
Regional Health Services	$ 1,437.0	22.7%
Medical and Health Services and Support	651.8	10.3
Schools	483.3	7.7
Post-Secondary Education	320.0	5.1
RCMP Services	84.0	1.3
Municipalities	77.5	1.2
Economic Development and Jobs	55.9	0.9
Employment and Training Programs	49.4	0.8
Agricultural Support	46.3	0.7
Family Services	35.5	0.6
Gaming Funds	32.1	0.5
Other	67.4	1.1
	$ 3,340.2	52.9%
Transfers to Individuals		
Income Support and Assistance	$ 328.1	5.2%
Agricultural Support	209.6	3.3
Prescription Drug Plan	140.3	2.2
Student Aid and Training	62.6	1.0
Family Services	52.0	0.8
Community Living	50.5	0.8
Treaty Land Entitlements	21.2	0.4
Other	17.3	0.3
	$ 881.6	14.0%
Salaries and Operating		
Corrections and the Justice System	$ 183.9	2.9%
Highway Maintenance and Operations	143.2	2.3
Income Support and Assistance	138.1	2.2
Health and Education Administration	120.9	1.9
Environment	110.9	1.7
Internal Government Departments	81.7	1.3
Agriculture and Economic Development	75.9	1.2
Other	37.8	0.6
	$ 892.4	14.1%
Pensions and Benefits		
Public Service	$ 187.2	3.0%
Teachers	104.0	1.6
	$ 291.2	4.6%
Capital		
Construction of Transportation Systems	$ 155.4	2.5%
Health	34.1	0.5
Municipalities	30.5	0.5
Centenary Fund	29.5	0.4
Asset Renewal	14.4	0.2
Post-Secondary and Schools	6.4	0.1
Other	10.6	0.2
	$ 280.9	4.4%
Servicing the Public Debt	$ 633.0	10.0%
Total Expenditure	**$ 6,319.3**	**100.0%**

Saskatchewan's Economic Outlook

Introduction

Saskatchewan's economy was strong in 2000 with economic growth of 4.7 per cent. This capped a decade of outstanding performance where the province posted the third best record in economic growth among the provinces.

However, Saskatchewan could not avoid the global deceleration in economic activity in 2001. Last year's drought, deteriorating economic conditions around the world and falling oil prices, particularly in the fourth quarter, significantly reduced the economic growth of the province.

Even with the slowdown in economic activity across North America, Saskatchewan posted a 0.8 per cent increase in real GDP during 2001.

Saskatchewan's economy is expected to improve in 2002 along with the Canadian and U.S. economies. Spurred by rising exports, the province is expected to register higher rates of economic growth over the medium term.

Forecast Assumptions

Saskatchewan's improved economic performance hinges on the recovery of the U.S. and Canadian economies, strong commodity prices and good crop harvests. In 2001, real GDP increased by 1.2 per cent in the U.S. and 1.5 per cent in Canada. Both economies are expected to recover slowly in 2002 and post higher rates of economic growth in the remainder of the forecast period.

The U.S. dollar price for a barrel of West Texas Intermediate (WTI) oil is forecast to average $20.00 in 2002 and $22.00 in 2003.

Natural gas prices are expected to average $3.00 per gigajoule in 2002 and throughout the medium term.

Prices for potash, wheat, barley and canola are projected to be relatively stable or slightly higher over the same period.

U.S. and Canadian Economic Outlook

	2001	2002	2003	2004
U.S. Real GDP Growth (%)	1.2	1.4	4.2	2.9
Canadian Real GDP Growth (%)	1.5	1.2	4.3	4.0
Canadian Inflation Rate (%)	2.6	1.8	2.0	2.1
Canadian Short-term Interest Rates (%)	3.9	3.7	5.5	5.7
Canadian Long-term Interest Rates (%)	7.1	6.9	7.7	8.0
Canadian Dollar (U.S. cents)	64.3	64.7	65.9	66.4

Price Forecasts for Selected Commodities

	2001	2002	2003	2004
WTI Oil (U.S.$/barrel)	25.95	20.00	22.00	23.00
Natural Gas (C$/GJ)	5.35	3.00	3.00	3.00
Potash (C$/tonne)	206.59	206.73	205.78	206.80
Wheat (C$/tonne)*	161.52	165.00	157.00	161.48
Barley (C$/tonne)*	137.32	120.00	123.05	122.12
Canola (C$/tonne)*	300.00	290.00	295.80	309.88

*Crop year basis

The Economic Outlook for Saskatchewan

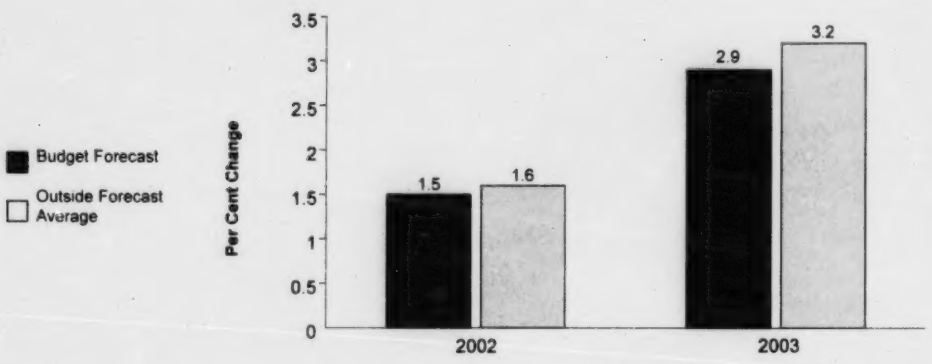
Stronger economic activity in Canada and the U.S., low interest rates and an average crop harvest will increase Saskatchewan's economic growth rate to 1.5 per cent in 2002. Economic growth is projected to be 2.9 per cent in 2003 and 2.8 per cent in 2004 as a resurgent global economy leads to increased provincial exports.

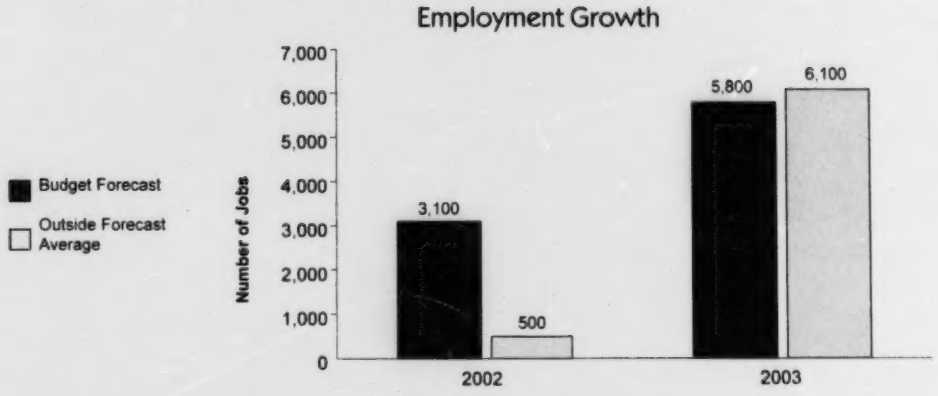
On average, private sector forecasters project Saskatchewan's real GDP to rise at an annual rate of 1.6 per cent in 2002 and 3.2 per cent in 2003.

After a significant decline in 2001, Saskatchewan's level of employment is forecast to increase by 3,100 in 2002, 5,800 in 2003 and 5,200 in 2004.

Private sector forecasting agencies, on average, project an increase of 500 jobs in 2002 and 6,100 jobs in 2003.

Real GDP Growth





Saskatchewan's Medium-term Economic Outlook

	2001	2002	2003	2004
Real GDP (% Change)	0.8	1.5	2.9	2.8
Nominal GDP (% Change)	0.1	1.7	5.3	4.1
Consumer Price Index (% Change)	3.1	2.4	2.1	1.8
Employment Level (Thousands)	472.3	475.4	481.2	486.4
Unemployment Rate (%)	5.8	5.5	5.2	5.0
Personal Income (% Change)	2.4	2.3	4.5	4.3
Personal Disposable Income (% Change)	2.4	2.4	4.8	4.6
Retail Trade (% Change)	2.9	1.6	3.3	2.8

Risks and Opportunities

This forecast is based on economic growth in Canada and the U.S. rebounding strongly in the latter half of 2002. Weaker-than-expected Canadian and U.S. growth would hinder the economic performance of the province in 2002.

Commodity prices could be lower or higher than forecast. Lower prices would detract from growth while higher prices would add to economic growth.

The economic forecast assumes an average crop in both quantity and quality annually through to the end of the forecast period. A poor harvest, as a result of drought or other causes, would detract from economic growth while a bumper crop would add to the province's economic growth.

Saskatchewan's Financial Outlook

In 2002–03, the General Revenue Fund (GRF) will be balanced for the ninth consecutive year.

Revenue

Total GRF revenue, which was $6.05 billion in 2000–01 (excluding the final Saskatchewan Liquor and Gaming Authority retained earnings dividend of $700 million), is projected to fall to $5.96 billion in 2001–02 before growing to $6.09 billion in 2002–03 and $6.19 billion in 2003–04. Over the four-year period, total GRF revenue is expected to average 0.7 per cent growth on an annual basis.

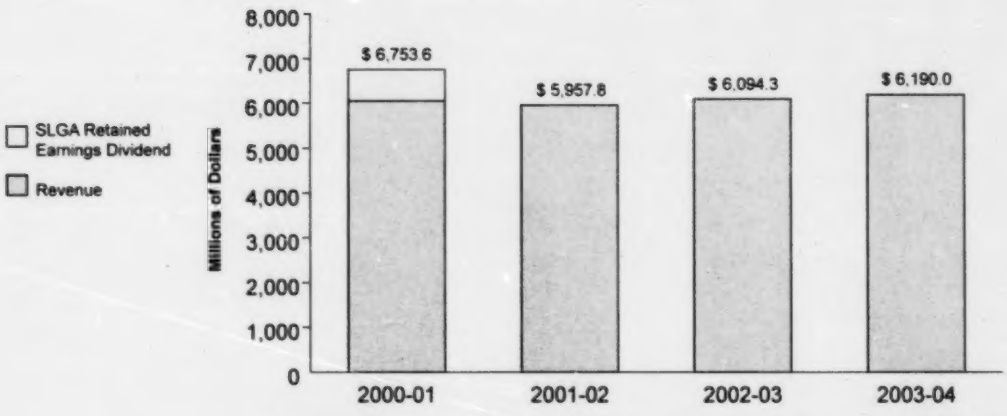
Operating Expenditure

GRF operating expenditure, which was $5.26 billion in 2000–01, is projected to be $5.75 billion in 2001–02, falling to $5.69 billion in 2002–03 and remaining at that level in 2003–04.

The spending planned in the 2002–03 Budget will be allocated:

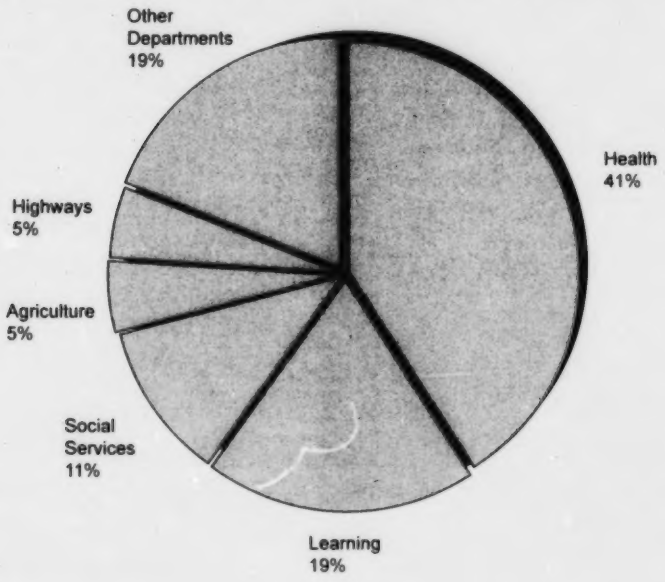
- 41 per cent to Health;
- 19 per cent to Learning;
- 11 per cent to Social Services;
- 5 per cent to Agriculture;
- 5 per cent to Highways and Transportation; and,
- 19 per cent to the remaining departments and agencies.

GRF Revenue



[1] SLGA Retained Earnings Dividend for 2000–01 was $699.8 million and Revenue was $6,053.8 million.

Composition of GRF Operating Expenditure, 2002–03



Interest Costs

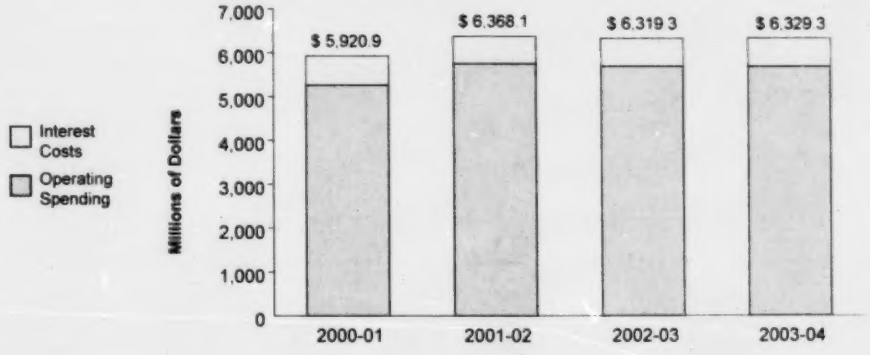
Interest costs were reduced from a peak of $882 million in 1994–95 to $664 million in 2000–01. Very favourable short-term interest rates on in-year borrowing facilitated savings of $20 million in interest costs during the course of 2001–02. A return to more moderate interest rate projections in the near term, combined with balanced budgets, will result in slight increases in interest costs in 2002–03 and 2003–04.

Total Expenditure

Total expenditure is composed of operating expenditure and interest costs.

Total GRF expenditure, which was $5.92 billion in 2000–01, is projected to be $6.37 billion in 2001–02, fall to $6.32 billion in 2002–03 and grow to $6.33 billion in 2003–04.

GRF Total Expenditure



Fiscal Stabilization Fund Transfer

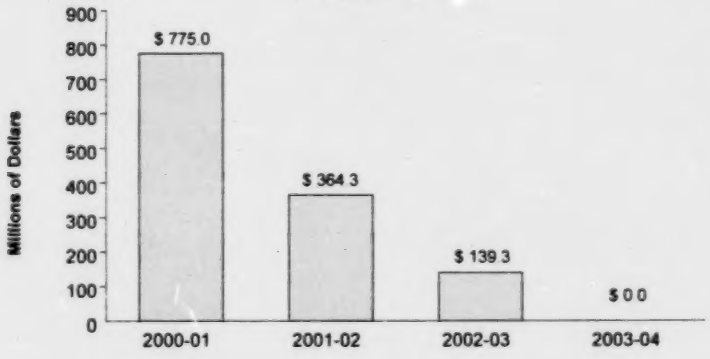
The Fiscal Stabilization Fund was created in 2000–01 to stabilize the fiscal position of the province from year to year and to facilitate the accomplishment of long-term objectives. In 2000–01, $775.0 million was transferred from the GRF to the Fiscal Stabilization Fund. Last year's budget estimated a transfer of $263.7 million would be required in 2001–02.

Deterioration in revenue projections throughout the course of 2001–02 was projected to be offset by increased transfers from the Fund. Currently, it is expected that $410.7 million will be required to deliver a balanced budget in 2001–02; $225.0 million will be required to deliver a balanced budget in 2002-03; and, the remaining $139.3 million will be required to deliver a balanced budget in 2003-04.

Budget Balances

Following a surplus of $57.7 million in 2000–01, the budget is expected to be balanced throughout the medium term.

Fiscal Stabilization Fund Balances
(at fiscal year-end)



General Revenue Fund Financial Outlook

	2000–01	2001–02	2002–03	2003–04
Revenue	$ 6,053.8	$ 5,957.8	$ 6,094.3	$ 6,190.0
SLGA Dividend	699.8	0.0	0.0	0.0
Total Revenue	6,753.6	5,957.8	6,094.3	6,190.0
Operating Spending	5,256.8	5,747.6	5,686.3	5,686.3
Operating Surplus	1,496.8	210.2	408.0	503.7
Less Interest	664.1	620.5	633.0	643.0
Transfers (to) from FSF	(775.0)	410.7	225.0	139.3
Budget Balance	**$ 57.7**	**$ 0.4**	**$ 0.0**	**$ 0.0**

2002–03 Revenue Initiatives

Introduction

The 2002–03 Saskatchewan Budget builds on the government's strategy to attract and retain capital and promote investment and job creation in the province. It introduces a number of measures to improve the competitiveness of Saskatchewan's tax system that focus on the following objectives:

- Encouraging capital development and retention;
- Simplifying tax compliance for small businesses;
- Supporting research and development in Saskatchewan;
- Strengthening the value-added sector of the provincial economy; and,
- Assisting in the retention and attraction of skilled labour to Saskatchewan.

Attracting and Retaining Capital

Corporation Capital Tax

Saskatchewan businesses have stressed the importance of strengthening the capital base of the province. They have suggested that reduced levels of taxation on capital would act as a significant encouragement to investment. One area of business taxation that has attracted considerable attention by business groups has been the Corporation Capital Tax (CCT).

Effective for corporation taxation years commencing on or after January 1, 2002, Saskatchewan is increasing the CCT exemption for a corporation from its current level of $10 million to as high as $15 million.

The extent to which the exemption will increase for each company will depend upon the extent of its presence in Saskatchewan.

The CCT exemption reduces a corporation's taxable Canadian paid-up capital for tax calculation purposes. If a corporation's taxable Canadian paid-up capital is reduced to zero after deducting the exemption amount, the company is not liable for the Saskatchewan CCT. For those companies that are subject to the CCT, the exemption reduces the effective rate of tax on capital in the province.

The increase in the exemption will apply based upon the proportion of total salaries and wages that are paid in Saskatchewan by a taxable company and its associated companies. If all of the salaries and wages of the company and its associated companies are paid to Saskatchewan residents, then 100 per cent of the $5 million exemption increase will apply. If a lesser proportion of total salaries and wages is paid in Saskatchewan, then the increase in the CCT exemption will be reduced accordingly.

This change will result in Saskatchewan having the highest CCT exemption in Canada. This ensures that many Saskatchewan-based companies will not be subject to the CCT or will have their CCT significantly reduced.

For further information, please contact Saskatchewan Finance at 306-787-7773.

Farm and Small Business Capital Gains Tax Credit

As part of personal income tax reform, the tax rate on taxable capital gains on qualified farm property and small business shares exceeding the capital gains deduction was reduced to the lowest provincial income tax rate. For 2002, this rate is reduced from 11.5 per cent to 11.25 per cent and, for 2003, this rate is further reduced to 11 per cent.

This initiative significantly offsets tax differences that exist between provinces on the disposition of eligible farm and small business property in order to encourage farm and small business owners and their business expertise to remain in the province.

For further information, please contact Saskatchewan Finance at 306-787-6722.

Small Business Measures

As part of the 2001–02 Budget, small business taxation was significantly reduced to improve the competitiveness of Saskatchewan's tax system:

- The small business Corporation Income Tax rate was reduced by one-quarter to 6 per cent, effective July 1, 2001;
- The small business annual threshold was increased by 50 per cent to $300,000, effective January 1, 2002; and,
- Professionals were given the right to incorporate their practices.

The 2002–03 Budget introduces measures to simplify the tax compliance requirements of small businesses. Beginning July 1, 2002, the filing thresholds for remitting Provincial Sales Tax and Liquor Consumption Tax collections will be doubled. This will permit more businesses to remit these taxes less frequently to reduce compliance costs and improve the cash flows of small businesses.

This initiative will increase the monthly filing threshold from $300 per month to $600 per month (quarterly and annual filing thresholds will be increased similarly). This initiative will complement the Saskatchewan Electronic Tax Service, an e-filing service recently implemented by the Province to assist businesses.

For further information, please contact Saskatchewan Finance at 1-800-667-6102.

Supporting Research and Development

Oil and Natural Gas Initiatives

Effective April 1, 2002, the current Saskatchewan Petroleum Research Incentive (SPRI) will be extended for an additional five years.

The SPRI encourages additional investment in research and development by the oil and natural gas industry in Saskatchewan. The SPRI is a credit against provincial royalties, equal to 30 per cent of eligible petroleum field pilot project research and development expenditures in the province.

A $5 million, five-year provincial commitment is also being provided to support research and development undertaken through multi-client project work at the Petroleum Technology Research Centre at the University of Regina.

These initiatives will create a strong industry incentive to undertake private sector investment in oil and natural gas research and development technology in Saskatchewan.

For further information, please contact Saskatchewan Industry and Resources at 306-787-2232.

Scientific Research and Experimental Development Tax Credit

Saskatchewan provides the Scientific Research and Experimental Development Tax Credit to encourage investment in research and development and the expansion of knowledge-based industries in the province. The 15 per cent tax credit reduces Saskatchewan corporate income taxes payable in the year eligible expenditures are incurred. Unused tax credits may be carried forward for seven taxation years or carried back three years.

Many smaller knowledge-based companies do not find themselves in a taxable position for a number of years. As a result, earned tax credits may expire before a company is in a position to utilize them. To address this situation, the tax credit carry-forward provision will be extended to 10 taxation years, matching the period allowed for the parallel federal tax credit. This change will be made retroactive to March 20, 1998.

For further information, please contact Saskatchewan Finance at 306-787-6722.

Strengthening the Value-Added Sector of the Economy

Ethanol Development

The Government has announced its intention to effectively eliminate the Fuel Tax on ethanol that is both produced in Saskatchewan and sold in the province as part of a motive fuel blend. This initiative will encourage Saskatchewan production of an environmentally friendly fuel alternative.

In addition to the environmental benefits of ethanol, this initiative will help create jobs for rural Saskatchewan and provide an alternate market for provincial farm producers.

For further information, please contact Saskatchewan Industry and Resources at 306-787-2232.

Manufacturing and Processing Incentives

In 1995 the government introduced two major initiatives in support of the province's manufacturing and processing (M&P) sector. The M&P Profits Tax Reduction lowers the provincial corporate income tax rate on M&P profits to as low as 10 per cent. The Investment Tax Credit for M&P encourages the acquisition of M&P capital assets.

For both of these initiatives, the definition of M&P is being expanded to include the production or processing of electrical energy or steam for sale. This measure will encourage green power development in Saskatchewan, with the potential for the long-term economic benefits of new electrical production.

For further information, please contact Saskatchewan Finance at 306-787-6722.

Attraction and Retention of Skilled Labour in the Province

Saskatchewan is known for having a hard-working and skilled labour force that is often sought after by businesses in other jurisdictions. Personal income tax reform responds to the challenge of retaining skilled labour force in the face of external competition.

One of the most important improvements from this reform is the reduction in marginal tax rates. The top provincial marginal tax rate will be reduced from 19.9 per cent to 15.0 per cent. The marginal tax rate affecting middle income earners will decline even more. An individual earning $50,000 will see the marginal tax rate decline from 18.1 per cent to 13.0 per cent.

Personal tax reform provides the following advantages:

- the lowest sales tax rate in the country other than Alberta where substantial health care premiums are levied on their residents;
- the second highest personal income tax credits for the family in Canada, including the only universal child tax credit; and,
- the third lowest top provincial marginal tax rate at 15 per cent.

These tax advantages combine with Saskatchewan's many other advantages such as low household charges to make the province an attractive place to live and work.

For further information, please contact Saskatchewan Finance at 306-787-6722.

Other Revenue Measures

Tobacco Tax

Effective midnight Budget night, the tax rate on cigarettes will increase from 8.6 cents per cigarette to 16 cents per cigarette. The tax rate on cut/loose tobacco will increase from 7.7 cents per gram to 16 cents per gram. The maximum level of taxation on cigars will increase from $2.50 per cigar to $5.00 per cigar.

Liquor Consumption Tax

Effective April 1, 2002, the Liquor Consumption Tax rate will increase from 7 per cent to 10 per cent.

For further information on these measures, please contact Saskatchewan Finance at 1-800-667-6102.

Saskatchewan's Tax Expenditures

Introduction

Although the primary purpose of taxation is to raise revenue, governments also attain some of their social and economic goals by reducing the taxes paid by certain taxpayers. These reductions are commonly called "tax expenditures" and include such measures as exemptions, deductions, tax credits, preferential tax rates, deferrals or omissions. Each provides special or preferential treatment to certain taxpayers or to certain types of activity. Taken together, they provide assistance to a variety of individuals and businesses, including families, farmers, senior citizens and small businesses.

While tax expenditures are usually absorbed in the overall revenue estimates and are not presented in the same way as direct spending programs, they reduce the amount of revenue generated by a government and they affect a government's fiscal position in the same way as direct expenditures.

The Rationale for Tax Expenditures

Tax expenditures can achieve a number of objectives, such as enhancing the fairness of the tax system or promoting certain types of economic activity. In pursuing these objectives, some tax expenditures have become fundamental elements of the tax system.

In 2001, Saskatchewan's personal income tax shifted from a complex system of taxes, surtaxes and a low income reduction to a simplified tax structure applied directly to taxable income as defined for federal income tax purposes. Deductions that contribute to the federal determination of taxable income, such as the deduction for Registered Retirement Savings Plan contributions, continue to affect Saskatchewan income tax revenue. The impacts of several of these deductions are estimated in this paper.

The Government of Saskatchewan improved the fairness of its personal income tax system by introducing a progressive three-rate tax structure on taxable income along with increases in provincial non-refundable tax credits. Provincial tax credits generally parallel federal credits, except that Saskatchewan has increased its basic and spousal amounts to $8,000.

In addition, the new provincial tax system introduced a supplement to the age amount, which has increased to $750 for the 2002 tax year, and a dependent child amount, which has increased to $2,000 per child for 2002. This paper also provides estimates of the revenue impacts of several of the provincial non-refundable tax credits.

To improve the distribution of corporate taxes, Saskatchewan levies a lower income tax rate on small businesses and a capital tax on larger corporations. The small business corporate income tax rate of six per cent is less than half the general corporate income tax rate of 17 per cent. The exemption from Saskatchewan's capital tax, which will be increased in 2002, ensures that only the largest corporations in the province are subject to the tax. As a result, over 30,000 corporations filing income tax returns in Saskatchewan are not subject to the capital tax.

To promote economic activity and create jobs, the corporate income tax rate on manufacturing and processing (M&P) profits is reduced by up to seven percentage points, depending upon the level of business activity in Saskatchewan. Saskatchewan also provides an Investment Tax Credit to assist M&P companies which invest in qualifying new or used M&P assets for use in Saskatchewan.

In recognition of the importance of agriculture to Saskatchewan, the Province's Fuel Tax provides tax-free treatment to farm-use diesel fuel, through a fuel-colouring program, and farm-use gasoline when purchased in bulk. In addition, Saskatchewan continues to provide an annual gasoline tax rebate to farmers for agricultural use of gasoline that is not purchased tax-free in bulk.

Saskatchewan's sales tax does not apply to certain basic items such as food, home heating fuel, residential electricity, children's clothing and reading materials, thereby reducing the taxes paid by families consuming these basic items. This treatment is in contrast to the federal Goods and Services Tax (GST) and the sales taxes of provinces that have harmonized their sales taxes with the GST, since those taxes apply to a much broader range of goods and services purchased by families.

Associated Costs

While tax expenditures serve important social and economic objectives, the introduction of any tax expenditure results in associated costs. These costs take several forms.

- First, there is the cost of forgone revenues. Tax expenditures result in the reduction of revenue collected and have a significant impact on a government's financial position.
- Second, tax expenditures may add to the complexity of the tax system, leading to increased administrative effort by both taxpayers and governments.
- Third, tax expenditures may create distortions in consumer and other economic behaviour. For example, the exemption for restaurant meals and snack foods provides preferential treatment for this category of consumer expenditure.
- Finally, tax expenditures may create increased compliance costs for both businesses and consumers.

Government of Canada Tax Expenditures

The federal government produces a detailed presentation on tax expenditures that are part of the federal tax system. The 2001 estimates of federal tax expenditures include projections to the year 2003 as well as historical data.

Since Saskatchewan's personal and corporate income taxes are based upon the federal definition of taxable income, many of the federal tax expenditures have an impact on Saskatchewan's revenue, not all of which are shown in this paper's estimates. Readers interested in examining the federal government's presentation of tax expenditures are invited to contact the Finance Canada Distribution Centre in Ottawa or visit the website **www.fin.gc.ca/purl/taxexp-e.html**.

2002 Saskatchewan Tax Expenditures

Beginning in 2001, Saskatchewan's personal income tax became based directly upon taxable income. The 2002 taxation year represents the second phase of the three-year implementation period for this tax reform.

Beginning in 2002, the exemption from the provincial capital tax is being increased from $10 million to as high as $15 million, depending upon the extent of a corporation's wages and salaries paid in Saskatchewan.

The following tables provide estimates of various tax expenditures of the Government of Saskatchewan in 2002. The estimates were calculated using tax collection data and Statistics Canada data.

2002 Government of Saskatchewan
Tax Expenditure Accounts
(Value of Tax Expenditures in Millions of Dollars)

Sales Tax

Exemptions	
1. Children's clothing and footwear	$ 6.8
2. Prescription drugs	18.4
3. Electricity	32.5
4. Farm machinery and repair parts	40.6
5. Fertilizer, pesticide and seed	81.5
6. Food	
- Restaurant meals and snack foods	46.7
- Basic groceries	90.7
7. Natural gas	34.0
8. Reading materials	9.8
9. Services	
- Construction	174.8
- Other	24.5
10. Used goods - exemption amounts	7.2
11. Direct agents	8.7
12. Toll-free telephone services	0.2
13. Livestock and horticultural facilities	2.0
14. Municipal fire trucks	0.1
15. Mineral exploration equipment	0.1

Fuel Tax

1. Exemption and rebates for farm activity	$ 118.0
2. Exemption for heating fuels	18.0
3. Exemption for primary producers	2.0

Personal Income Tax

Deductions from Income	
1. Registered Pension Plan contributions	$ 36.6
2. Registered Retirement Savings Plan contributions	106.7
3. Annual union, professional or like dues	8.6
4. Child care expenses	6.8
5. Moving expenses	1.3
6. Carrying charges	8.4
7. Allowable employment expenses	9.4
8. $500,000 capital gains deduction	23.6

Saskatchewan Non-refundable Tax Credits	
1. $8,000 basic personal tax credit	$ 476.4
2. $8,000 spousal tax credit	29.2
3. $8,000 equivalent-to-spouse tax credit	14.1
4. Age tax credit	26.3
5. $750 supplement to the age tax credit	6.3
6. $2,000 dependent child tax credit	36.0
7. Canada Pension Plan contributions tax credit	45.0
8. Employment Insurance premiums tax credit	19.6
9. Pension income tax credit	8.7
10. Education tax credit	8.0
11. Tuition tax credit	9.6
12. Tax credit on student loan interest	1.5
13. Disability tax credit	4.5
14. Attendant care expenses deduction and caregiver tax credit	0.3
15. Medical expenses tax credit	13.9
16. Charitable contributions tax credit	26.8
Other Saskatchewan Tax Measures	
1. Saskatchewan Sales Tax Credit	$ 26.0
2. Political Contribution Tax Credit	1.0
3. Post-Secondary Education Graduate Tax Credit	3.0
4. Mineral Exploration Tax Credit	0.3
5. Labour-sponsored Venture Capital Tax Credit	7.0
Corporation Income Tax	
1. Lower tax rate for small business	$ 73.7
2. Royalty Tax Rebate	19.0
3. Manufacturing & Processing Profits Tax Reduction	20.0
4. Investment Tax Credit for Manufacturing and Processing	12.3
5. Research and Development Tax Credit	6.6
Corporation Capital Tax	
1. General exemption of up to $15,000,000	$ 27.8
2. Exemption for co-operatives, credit unions, family farm corporations and insurance companies	11.5

Intercity Comparison of Taxes and Household Charges

A number of factors contribute to the quality of life enjoyed by individuals and families in Saskatchewan and across Canada. For example, access to excellent health care, education and social services is a key part of the overall quality of life. Two other important factors that affect quality of life are:

- the level of taxation; and,
- household costs for rent and mortgages, utilities and auto insurance.

Calculating the combined cost of provincial taxes and typical household charges is a reliable way to compare the attractiveness of living in different parts of Canada.

For the purposes of such a comparison, the total cost of such taxes and household charges for representative families living in Saskatoon, Saskatchewan's largest city, has been compared with the costs those families would face in other major cities across the country.

The provincial taxes and household charges associated with the following family characteristics and income levels have been calculated to provide a representative comparison:

- a single individual, living in rental accommodation, with an annual income of $25,000;
- a family of two adults and two dependent children, owning its own home, with an annual family income of $50,000; and,
- a family of two adults and two dependent children, owning its own home, with an annual family income of $75,000.

The income of the two families is assumed to be earned by both spouses, with one earning 60 per cent and the other earning 40 per cent of total family income. With the exception of the Goods and Services Tax on utilities, federal taxes are not included in this comparison.

The results of this survey show that Saskatoon compares favourably with other cities in Canada, having the second lowest overall combined taxes and charges of the ten cities surveyed for a single person with an income of $25,000, and the lowest overall combined taxes and charges for the $50,000 and $75,000 representative families.

There are a number of reasons for Saskatoon's lowest overall standing for families in this comparison with other Canadian cities. Saskatoon has the lowest combined charges for auto insurance, telephone, home heating and electricity in 2002. Also, housing costs in Saskatoon associated with mortgage payments and property taxes are among the lowest in Canada.

The combined effect of Saskatchewan's six per cent Provincial Sales Tax (PST) rate, the lowest in Canada of those provinces with a sales tax, and the PST's broad list of personal exemptions means that Saskatchewan families pay the lowest provincial sales tax in Canada. Alberta, which has no sales tax, levies health care premiums that exceed the sales tax paid in Saskatchewan by average families.

Saskatchewan's personal income tax reform continues to be implemented in 2002, with additional tax reductions occurring for all provincial taxpayers. Since 1999:

- A single individual earning $25,000 will experience a $159 provincial tax reduction to $2,202, fifth lowest tax level in Canada;
- A two-income family earning $50,000 will experience a $664 provincial tax reduction to $3,789, fifth lowest tax level in Canada; and,
- A two-income family earning $75,000 will experience a $1,069 provincial tax reduction to $7,033, fourth lowest tax level in Canada.

All of these factors combine to make Saskatoon compare very favourably with other Canadian cities when considering the living costs facing individuals and families.

M121

IMPORTANT NOTE CONCERNING THE FOLLOWING PAGES

THE PAGES WHICH FOLLOW HAVE BEEN FILMED TWICE IN ORDER TO OBTAIN THE BEST REPRODUCTIVE QUALITY

USERS SHOULD CONSULT ALL THE PAGES REPRODUCED ON THE FICHE IN ORDER TO OBTAIN A COMPLETE READING OF THE TEXT.

REMARQUE IMPORTANTE CONCERNANT LES PAGES QUI SUIVENT

LES PAGES SUIVANTES ONT ÉTÉ REPRODUITES EN DOUBLE AFIN D'AMÉLIORER LA QUALITÉ DE REPRODUCTION

LES UTILISATEURS DOIVENT CONSULTER TOUTES LES PAGES REPRODUITES SUR LA FICHE AFIN D'OBTENIR LA LECTURE DU TEXTE INTÉGRAL

Micromedia
ProQuest

20 Victoria Street
Toronto, Ontario M5C 2N8
Tel.: (416) 362-5211
Toll Free: 1-800-387-2689
Fax: (416) 362-6161
Email: info@micromedia.on.ca

2002 Intercity Comparison of Taxes and Household Charges: Single Person at $25,000 Total Income

	Vancouver	Calgary	Saskatoon	Winnipeg	Toronto	Montréal	Saint John	Halifax	Charlotte-town	St. John's
Provincial Income Tax	$ 924	$ 1,010	$ 1,737	$ 1,747	$ 953	$ 1,861	$ 1,530	$ 1,584	$ 1,571	$ 1,694
Tax Credits and Rebates	0	0	(77)	(425)	(138)	(549)	0	0	0	0
Health Premiums	576	498	0	0	0	0	0	0	0	0
Retail Sales Tax	416	0	392	469	569	774	864	864	641	910
Gasoline Tax	165	90	150	115	147	167	107	135	120	165
Total Provincial Taxes	$ 2,081	$ 1,598	$ 2,202	$ 1,906	$ 1,531	$ 2,253	$ 2,501	$ 2,583	$ 2,332	$ 2,769
*Pre-Reform Taxes**	*$ 2,361*	*$ 1,881*	*$ 2,361*	*$ 2,163*	*$ 1,695*	*$ 2,929*	*$ 2,606*	*$ 2,563*	*$ 2,357*	*$ 2,961*
Net Tax Savings	*$ 280*	*$ 283*	*$ 159*	*$ 257*	*$ 164*	*$ 676*	*$ 105*	*$ (20)*	*$ 25*	*$ 192*
Rent	$ 8,712	$ 7,788	$ 5,520	$ 5,712	$10,392	$ 5,760	$ 4,872	$ 6,648	$ 5,263	$ 5,868
Electricity	352	685	615	378	542	411	547	585	659	578
Telephone	320	289	282	283	282	302	257	321	286	256
Auto Insurance	2,202	2,018	1,005	1,182	2,296	1,260	1,942	2,288	1,685	2,089
Total Household Charges	$11,586	$10,780	$ 7,422	$ 7,555	$13,512	$ 7,733	$ 7,618	$ 9,842	$ 7,893	$ 8,791
Total	$13,667	$12,378	$ 9,624	$ 9,461	$15,043	$ 9,986	$10,119	$12,425	$10,225	$11,560

2002 Intercity Comparison of Taxes and Household Charges: Family at $50,000 Total Income

	Vancouver	Calgary	Saskatoon	Winnipeg	Toronto	Montréal	Saint John	Halifax	Charlotte-town	St. John's
Provincial Income Tax	$ 1,666	$ 1,720	$ 2,686	$ 2,587	$ 1,339	$ 978	$ 2,770	$ 2,895	$ 2,847	$ 3,094
Tax Credits and Rebates	0	0	0	(400)	0	0	0	0	0	0
Health Premiums	1,152	996	0	0	0	0	0	0	0	0
Retail Sales Tax	850	0	803	947	1,153	1,557	1,690	1,690	1,289	1,781
Gasoline Tax	330	180	300	230	294	334	214	270	240	330
Total Provincial Taxes	$ 3,998	$ 2,896	$ 3,789	$ 3,364	$ 2,786	$ 2,869	$ 4,674	$ 4,855	$ 4,376	$ 5,205
*Pre-Reform Taxes**	*$ 4,510*	*$ 3,486*	*$ 4,453*	*$ 3,925*	*$ 3,268*	*$ 5,182*	*$ 4,884*	*$ 4,610*	*$ 4,446*	*$ 5,555*
Net Tax Savings	*$ 512*	*$ 590*	*$ 664*	*$ 561*	*$ 482*	*$ 2,313*	*$ 210*	*$ (245)*	*$ 70*	*$ 350*
Mortgage Costs	$10,149	$ 7,655	$ 4,545	$ 4,207	$ 9,528	$ 4,809	$ 3,273	$ 5,863	$ 4,013	$ 3,490
Property Taxes	2,439	1,955	2,063	3,053	2,799	2,600	1,300	2,594	1,500	842
Home Heating	1,623	904	1,224	1,405	1,631	1,901	1,956	1,711	1,584	1,956
Electricity	569	1,045	944	589	851	603	838	923	986	850
Telephone	320	289	282	283	282	302	257	321	286	256
Auto Insurance	2,202	2,018	1,005	1,182	2,296	1,260	1,942	2,288	1,685	2,089
Total Household Charges	$17,302	$13,866	$10,063	$10,719	$17,387	$11,475	$ 9,566	$13,700	$10,054	$ 9,483
Total	$21,300	$16,762	$13,852	$14,083	$20,173	$14,344	$14,240	$18,555	$14,430	$14,688

* Pre-reform taxes refers to total provincial taxes prior to the reform of provincial taxes that began in 2000. Net tax savings is determined as the difference between pre-reform taxes and 2002 total provincial taxes.

2002 Intercity Comparison of Taxes and Household Charges: Family at $75,000 Total Income

	Vancouver	Calgary	Saskatoon	Winnipeg	Toronto	Montréal	Saint John	Halifax	Charlotte-town	St. John's
Provincial Income Tax	$ 3,529	$ 4,089	$ 5,651	$ 6,024	$ 3,564	$ 6,453	$ 5,747	$ 5,986	$ 5,738	$ 6,436
Tax Credits and Rebates	0	0	0	(400)	0	0	0	0	0	0
Health Premiums	1,152	996	0	0	0	0	0	0	0	0
Retail Sales Tax	1,153	0	1,082	1,265	1,543	2,073	2,231	2,231	1,723	2,353
Gasoline Tax	330	180	300	230	294	334	214	270	240	330
Total Provincial Taxes	$ 6,164	$ 5,265	$ 7,033	$ 7,119	$ 5,401	$ 8,860	$ 8,192	$ 8,487	$ 7,701	$ 9,119
*Pre-Reform Taxes**	*$ 7,434*	*$ 6,046*	*$ 8,102*	*$ 7,970*	*$ 5,901*	*$ 10,811*	*$ 8,582*	*$ 8,371*	*$ 7,971*	*$ 9,759*
Net Tax Savings	*$ 1,270*	*$ 781*	*$ 1,069*	*$ 851*	*$ 500*	*$ 1,951*	*$ 390*	*$ (116)*	*$ 270*	*$ 640*
Mortgage Costs	$10,149	$ 7,655	$ 4,545	$ 4,207	$ 9,528	$ 4,809	$ 3,273	$ 5,863	$ 4,013	$ 3,490
Property Taxes	2,439	1,955	2,063	3,053	2,799	2,600	1,300	2,594	1,500	842
Home Heating	1,623	904	1,224	1,405	1,631	1,901	1,956	1,711	1,584	1,956
Electricity	569	1,045	944	589	851	603	838	923	986	850
Telephone	320	289	282	283	282	302	257	321	286	256
Auto Insurance	2,202	2,018	1,005	1,182	2,296	1,260	1,942	2,288	1,685	2,089
Total Household Charges	$17,302	$13,866	$10,063	$10,719	$17,387	$11,475	$ 9,566	$13,700	$10,054	$ 9,483
Total	$23,466	$19,131	$17,096	$17,838	$22,788	$20,335	$17,758	$22,187	$17,755	$18,602

* Pre-reform taxes refers to total provincial taxes prior to the reform of provincial taxes that began in 2000. Net tax savings is determined as the difference between pre-reform taxes and 2002 total provincial taxes.

Taxes and Household Charges – Notes

Tax estimates are calculated using known changes as of March 20, 2002. All household charges are based on information available to Saskatchewan Finance as of January 1, 2002.

Provincial Income Tax is calculated for an individual with $25,000 and two families with $50,000 and $75,000 income respectively. It is assumed that family income is earned by both spouses at a 60 per cent to 40 per cent ratio and that the families each claim $3,000 in child care expenses for two dependent children (ages 6 and 12). Personal non-refundable credits used include the CPP/QPP and EI contribution credits. Gross Québec Personal Income Tax has been reduced by the Québec Child Care Expense Tax Credit and by the 16.5 per cent abatement from federal income tax.

Tax Credits and Rebates refers to refundable provincial income tax credits and rebates designed to reduce the impact of retail sales tax, rental payments and property taxes.

Health Premiums are annual premiums for hospital insurance and medical services.

Retail Sales Tax is based upon average family expenditure baskets at the total income levels from the Survey of Family Expenditures in 1996 (Statistics Canada). The sales tax base in each province was identified from the enacting legislation, with total expenditures adjusted to reflect Saskatchewan consumption patterns. Provincial retail sales taxes were then estimated based on taxable expenditures in each province.

Gasoline Tax is based on annual consumption of 1,000 litres by the single tax filer, and 2,000 litres for each of the families.

2002 Intercity Comparison of Taxes and Household Charges
Single Person at $25,000 Total Income

	Vancouver	Calgary	Saskatoon	Winnipeg	Toronto	Montréal	Saint John	Halifax	Charlotte-town	St. John's
Provincial Income Tax	$ 924	$ 1,010	$ 1,737	$ 1,747	$ 953	$ 1,861	$ 1,530	$ 1,584	$ 1,571	$ 1,694
Tax Credits and Rebates	0	0	(77)	(425)	(138)	(549)	0	0	0	0
Health Premiums	576	498	0	0	0	0	0	0	0	0
Retail Sales Tax	416	0	392	469	569	774	864	864	641	910
Gasoline Tax	165	90	150	115	147	167	107	135	120	165
Total Provincial Taxes	$ 2,081	$ 1,598	$ 2,202	$ 1,906	$ 1,531	$ 2,253	$ 2,501	$ 2,583	$ 2,332	$ 2,769
*Pre-Reform Taxes**	*$ 2,361*	*$ 1,881*	*$ 2,361*	*$ 2,163*	*$ 1,695*	*$ 2,929*	*$ 2,606*	*$ 2,563*	*$ 2,357*	*$ 2,961*
Net Tax Savings	*$ 280*	*$ 283*	*$ 159*	*$ 257*	*$ 164*	*$ 676*	*$ 105*	*$ (20)*	*$ 25*	*$ 192*
Rent	$ 8,712	$ 7,788	$ 5,520	$ 5,712	$ 10,392	$ 5,760	$ 4,872	$ 6,648	$ 5,263	$ 5,868
Electricity	352	685	615	378	542	411	547	585	659	578
Telephone	320	289	282	283	282	302	257	321	286	256
Auto Insurance	2,202	2,018	1,005	1,182	2,296	1,260	1,942	2,288	1,685	2,089
Total Household Charges	$ 11,586	$ 10,780	$ 7,422	$ 7,555	$ 13,512	$ 7,733	$ 7,618	$ 9,842	$ 7,893	$ 8,791
Total	$ 13,667	$ 12,378	$ 9,624	$ 9,461	$ 15,043	$ 9,986	$ 10,119	$ 12,425	$ 10,225	$ 11,560

2002 Intercity Comparison of Taxes and Household Charges
Family at $50,000 Total Income

	Vancouver	Calgary	Saskatoon	Winnipeg	Toronto	Montréal	Saint John	Halifax	Charlotte-town	St. John's
Provincial Income Tax	$ 1,666	$ 1,720	$ 2,686	$ 2,587	$ 1,339	$ 978	$ 2,770	$ 2,895	$ 2,847	$ 3,094
Tax Credits and Rebates	0	0	0	(400)	0	0	0	0	0	0
Health Premiums	1,152	996	0	0	0	0	0	0	0	0
Retail Sales Tax	850	0	803	947	1,153	1,557	1,690	1,690	1,289	1,781
Gasoline Tax	330	180	300	230	294	334	214	270	240	330
Total Provincial Taxes	$ 3,998	$ 2,896	$ 3,789	$ 3,364	$ 2,786	$ 2,869	$ 4,674	$ 4,855	$ 4,376	$ 5,205
*Pre-Reform Taxes**	*$ 4,510*	*$ 3,486*	*$ 4,453*	*$ 3,925*	*$ 3,268*	*$ 5,182*	*$ 4,884*	*$ 4,610*	*$ 4,446*	*$ 5,555*
Net Tax Savings	*$ 512*	*$ 590*	*$ 664*	*$ 561*	*$ 482*	*$ 2,313*	*$ 210*	*$ (245)*	*$ 70*	*$ 350*
Mortgage Costs	$ 10,149	$ 7,655	$ 4,545	$ 4,207	$ 9,528	$ 4,809	$ 3,273	$ 5,863	$ 4,013	$ 3,490
Property Taxes	2,439	1,955	2,063	3,053	2,799	2,600	1,300	2,594	1,500	842
Home Heating	1,623	904	1,224	1,405	1,631	1,901	1,956	1,711	1,584	1,956
Electricity	569	1,045	944	589	851	603	838	923	986	850
Telephone	320	289	282	283	282	302	257	321	286	256
Auto Insurance	2,202	2,018	1,005	1,182	2,296	1,260	1,942	2,288	1,685	2,089
Total Household Charges	$ 17,302	$ 13,866	$ 10,063	$ 10,719	$ 17,387	$ 11,475	$ 9,566	$ 13,700	$ 10,054	$ 9,483
Total	$ 21,300	$ 16,762	$ 13,852	$ 14,083	$ 20,173	$ 14,344	$ 14,240	$ 18,555	$ 14,430	$ 14,688

* Pre-reform taxes refers to total provincial taxes prior to the reform of provincial taxes that began in 2000. Net tax savings is determined as the difference between pre-reform taxes and 2002 total provincial taxes.

2002 Intercity Comparison of Taxes and Household Charges: Family at $75,000 Total Income

	Vancouver	Calgary	Saskatoon	Winnipeg	Toronto	Montréal	Saint John	Halifax	Charlotte-town	St. John's
Provincial Income Tax	$ 3,529	$ 4,089	**$ 5,651**	$ 6,024	$ 3,564	$ 6,453	$ 5,747	$ 5,986	$ 5,738	$ 6,436
Tax Credits and Rebates	0	0	**0**	(400)	0	0	0	0	0	0
Health Premiums	1,152	996	**0**	0	0	0	0	0	0	0
Retail Sales Tax	1,153	0	**1,082**	1,265	1,543	2,073	2,231	2,231	1,723	2,353
Gasoline Tax	330	180	**300**	230	294	334	214	270	240	330
Total Provincial Taxes	$ 6,164	$ 5,265	**$ 7,033**	$ 7,119	$ 5,401	$ 8,860	$ 8,192	$ 8,487	$ 7,701	$ 9,119
*Pre-Reform Taxes**	*$ 7,434*	*$ 6,046*	*$ 8,102*	*$ 7,970*	*$ 5,901*	*$ 10,811*	*$ 8,582*	*$ 8,371*	*$ 7,971*	*$ 9,759*
Net Tax Savings	*$ 1,270*	*$ 781*	*$ 1,069*	*$ 851*	*$ 500*	*$ 1,951*	*$ 390*	*$ (116)*	*$ 270*	*$ 640*
Mortgage Costs	$10,149	$ 7,655	**$ 4,545**	$ 4,207	$ 9,528	$ 4,809	$ 3,273	$ 5,863	$ 4,013	$ 3,490
Property Taxes	2,439	1,955	**2,063**	3,053	2,799	2,600	1,300	2,594	1,500	842
Home Heating	1,623	904	**1,224**	1,405	1,631	1,901	1,956	1,711	1,584	1,956
Electricity	569	1,045	**944**	589	851	603	838	923	986	850
Telephone	320	289	**282**	283	282	302	257	321	286	256
Auto Insurance	2,202	2,018	**1,005**	1,182	2,296	1,260	1,942	2,288	1,685	2,089
Total Household Charges	$17,302	$13,866	**$10,063**	$10,719	$17,387	$11,475	$ 9,566	$13,700	$10,054	$ 9,483
Total	$23,466	$19,131	**$17,096**	$17,838	$22,788	$20,335	$17,758	$22,187	$17,755	$18,602

* Pre-reform taxes refers to total provincial taxes prior to the reform of provincial taxes that began in 2000. Net tax savings is determined as the difference between pre-reform taxes and 2002 total provincial taxes.

Taxes and Household Charges – Notes

Tax estimates are calculated using known changes as of March 20, 2002. All household charges are based on information available to Saskatchewan Finance as of January 1, 2002.

Provincial Income Tax is calculated for an individual with $25,000 and two families with $50,000 and $75,000 income respectively. It is assumed that family income is earned by both spouses at a 60 per cent to 40 per cent ratio and that the families each claim $3,000 in child care expenses for two dependent children (ages 6 and 12). Personal non-refundable credits used include the CPP/QPP and EI contribution credits. Gross Québec Personal Income Tax has been reduced by the Québec Child Care Expense Tax Credit and by the 16.5 per cent abatement from federal income tax.

Tax Credits and Rebates refers to refundable provincial income tax credits and rebates designed to reduce the impact of retail sales tax, rental payments and property taxes.

Health Premiums are annual premiums for hospital insurance and medical services.

Retail Sales Tax is based upon average family expenditure baskets at the total income levels from the Survey of Family Expenditures in 1996 (Statistics Canada). The sales tax base in each province was identified from the enacting legislation, with total expenditures adjusted to reflect Saskatchewan consumption patterns. Provincial retail sales taxes were then estimated based on taxable expenditures in each province.

Gasoline Tax is based on annual consumption of 1,000 litres by the single tax filer, and 2,000 litres for each of the families.

Mortgage Costs are based on average home prices for a detached bungalow, from the Royal LePage Spring 2001 Survey of Canadian House Prices, with one-half of the home price being financed over 25 years at a one-year closed mortgage rate of 5.0 per cent.

Property Taxes are based on the average estimated taxes for a detached bungalow, from the Royal LePage Spring 2001 Survey of Canadian House Prices. All provincial, municipal, education and library property taxes are included in the property tax figures.

Home Heating charges are based on an annual consumption level of 3,550 m^3 of natural gas. For the Atlantic provinces, the figures represent the BTU equivalent consumption of fuel oil. Rates include applicable municipal taxes and surcharges.

Electricity charges are based on an annual consumption level of 4,584 kWh for the renter and 8,100 kWh for the homeowners. Rates include applicable municipal taxes and surcharges.

Telephone charges are the basic service rates for individual residences. Rates include applicable municipal taxes and surcharges.

Auto Insurance is based on the premium rate for a male over 30 years of age, driving a 1998 Ford Taurus. Coverage includes $1,000,000 third party liability, $200 deductible collision ($250 in Calgary, Saint John, Charlottetown and Halifax; $300 in Toronto and St. John's) and $100 deductible comprehensive in each city surveyed.

2002–03 Borrowing and Debt

Introduction

This paper discusses the province's 2002–03 estimated borrowing, debt and debt servicing costs compared to the forecast for 2001–02.

Debt

The debt of the General Revenue Fund consists of:

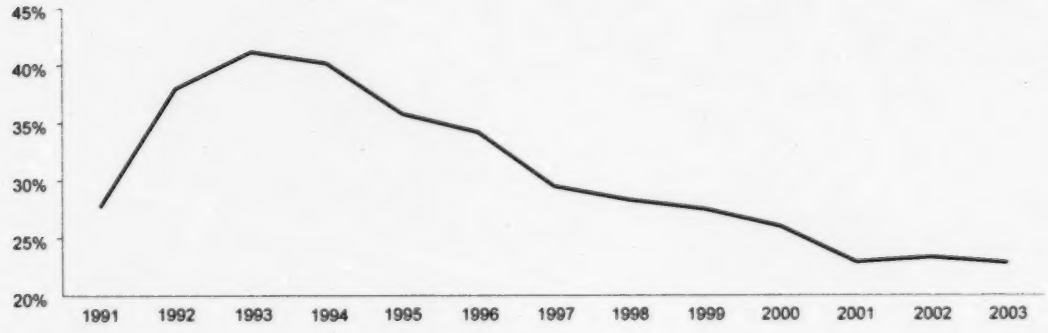
- Gross Debt – the amount of money owed to lenders; plus
- Guaranteed Debt – the debt of Crown corporations and others that the province has promised to repay if they are unable to do so; less
- Sinking Funds – the amount of money which has been set aside for the repayment of debt.

The province borrows for government and Crown corporations. Crown corporations are responsible for the principal and interest payments on their debt. Crown corporation debt is incurred in the normal course of business, primarily for investment in infrastructure and business development initiatives which provide revenue streams to service the debt.

Since March 31, 1994, Crown corporation debt has fallen by 35 per cent from $5.7 billion, or 24.6 per cent of Gross Domestic Product (GDP), to an estimated $3.6 billion, or 10.7 per cent of GDP, at March 31, 2003. As at March 31, 2003, 84 per cent of Crown corporation debt will be for the utility Crown corporations.

Government debt has fallen by 16 per cent from a peak of $9.3 billion, or 40.2 per cent of GDP, at March 31, 1994 to an estimated $7.8 billion, or 22.8 per cent of GDP, at March 31, 2003.

Government Debt as a Share of GDP
(as at March 31)



Summary of Debt
As at March 31
($ Millions)

	Estimated 2003	Forecast 2002	Actual 2001
Government			
Gross Debt	$ 8,275.5	$ 8,174.3	$ 7,912.8
Guaranteed Debt	183.2	230.3	270.9
Sinking Funds	701.8	602.2	507.3
Government Debt	$ 7,756.9	$ 7,802.4	$ 7,676.4
Crown Corporation			
Gross Debt	$ 3,816.1	$ 3,924.7	$ 3,848.3
Guaranteed Debt	27.9	35.2	41.1
Sinking Funds	187.8	312.5	369.3
Crown Corporation Debt	$ 3,656.2	$ 3,647.4	$ 3,520.1
Total Debt	$ 11,413.1	$ 11,449.8	$ 11,196.5

Government debt is forecast to increase by $126.0 million in 2001–02 and then decrease by $45.5 million in 2002–03.

Government debt as a percentage of GDP was 22.9 per cent at March 31, 2001, is forecast to be 23.3 per cent at March 31, 2002 and estimated to be 22.8 per cent at March 31, 2003.

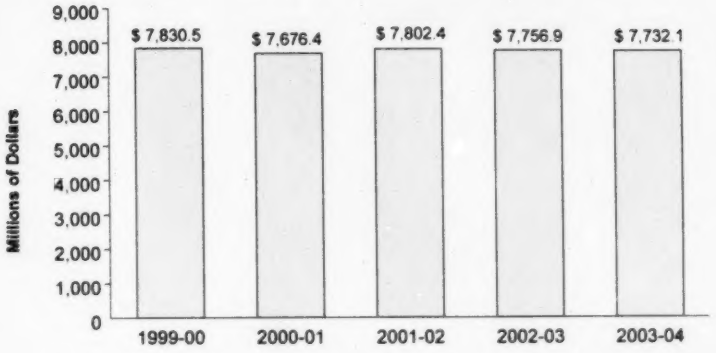
Crown corporation debt is forecast to increase by $127.3 million during 2001–02 and by a further $8.8 million during 2002–03.

Crown corporation debt as a percentage of GDP was 10.5 per cent at March 31, 2001, is forecast to be 10.9 per cent at March 31, 2002 and estimated to be 10.7 per cent at March 31, 2003.

Government Debt

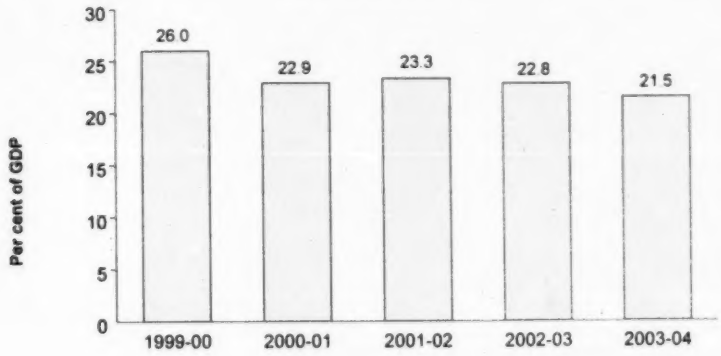
Government debt, which was $7.68 billion at **March 31, 2001**, is projected to increase to $7.80 billion by the end of 2001–02 and then decline marginally over the medium term.

Government Debt
(as at March 31)



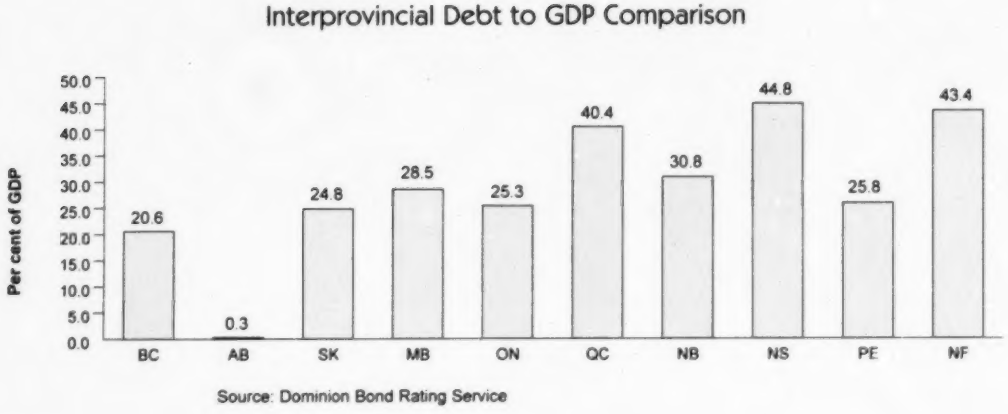
Government debt as a share of GDP is expected to increase from 22.9 per cent at **March 31, 2001** to 23.3 per cent at the end of 2001–02 and then decline throughout the medium term.

Government Debt as a Per cent of GDP
(debt as at March 31)

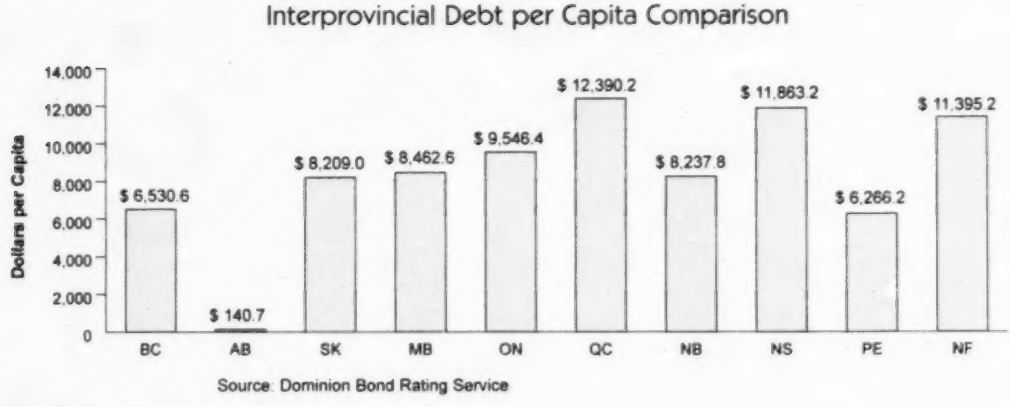


On the basis of Dominion Bond Rating Service's overview of Canadian governments' 2001 budgets, released **November 2001**,

Saskatchewan's tax-supported debt (net of unfunded pension liabilities) as a per cent of GDP was third lowest among the provinces.



On a per capita basis, Saskatchewan ranks fourth lowest among the provinces.



Total debt is forecast to increase by $253.3 million during 2001–02 and then decrease by $36.7 million in 2002–03. Total debt as a percentage of GDP was 33.4 per cent at March 31, 2001, is forecast to be 34.2 per cent at March 31, 2002 and estimated to be 33.5 per cent at March 31, 2003.

The table below shows total debt by purpose as at March 31, 2001, 2002 (forecast) and 2003 (estimated).

Borrowing

The province borrows through the sale of securities in capital markets and through the sale of savings bonds to Saskatchewan residents.

The province's 2002–03 borrowing requirements are estimated to be $507.0 million, compared to forecast requirements of $1,358.9 million in 2001–02.

Borrowing requirements for government in 2002–03, estimated to be $244.5 million (2001–02 forecast – $999.5 million), are to finance maturing debt ($143.3 million) and other cash requirements.

Borrowing requirements for Crown corporations in 2002–03, estimated to be $262.5 million (2001–02 forecast – $359.4 million), are primarily to refinance debt borrowed on their behalf as well as to assist in the financing of their activities.

Total Debt by Purpose
As at March 31
($ Millions)

	Estimated 2003	Forecast 2002	Actual 2001
Crown Corporation Debt			
Agricultural Credit Corporation of Saskatchewan	$ 34.8	$ 45.8	$ 59.8
Crown Investments Corporation of Saskatchewan	40.4	20.0	43.2
Education Infrastructure Financing Corporation	85.7	–	–
Information Services Corporation of Saskatchewan	62.0	55.0	20.2
Municipal Financing Corporation of Saskatchewan	13.4	27.1	62.1
Saskatchewan Development Fund	1.0	1.2	1.3
Saskatchewan Housing Corporation	108.2	138.4	156.2
Saskatchewan Opportunities Corporation	164.9	165.4	150.3
Saskatchewan Power Corporation	1,837.8	1,939.9	1,747.3
Saskatchewan Property Management Corporation	4.8	5.5	–
Saskatchewan Telecommunications Holding Corporation	523.5	432.7	437.6
Saskatchewan Water Corporation	53.7	43.6	38.6
SaskEnergy Incorporated	726.0	772.8	803.5
Total Crown Corporation Debt	$ 3,656.2	$ 3,647.4	$ 3,520.1
Government Debt	$ 7,756.9	$ 7,802.4	$ 7,676.4
Total Debt	$ 11,413.1	$ 11,449.8	$ 11,196.5

Reconciliation of Surplus and Change in Government Debt

The amount by which government debt will change may be higher or lower than the surplus reported under the accrual basis of accounting.

The differences between the surplus and the amount by which government debt will change is reconciled by:

1. Adjusting the surplus to a cash basis to recognize the amount and timing of non-cash revenues and expenditures to determine the cash provided from operations;
2. Adding other cash sources or subtracting other cash requirements to recognize the amount of cash inflows and outflows from loan, investment and other activities to determine the cash available to reduce debt;
3. Adjusting for foreign exchange rate changes to restate the value of foreign currency denominated debt due to changes in the exchange value of the Canadian dollar;
4. Adding changes in sinking funds which will be used to repay government debt; and,
5. Adding the change in government guaranteed debt.

	Estimated 2002–03	Forecast 2001–02
	($ Millions)	
Surplus (on Accrual Accounting Basis)	$ 0.0	$ 0.4
1. Adjustment to Cash Basis	(16.3)	(13.1)
Cash Provided by (Used for) Operations	$ (16.3)	$ (12.7)
2. Other Cash Sources (Requirements)	(84.9)	(228.5)
Cash Available to Reduce Debt	(101.2)	(241.2)
3. Foreign Exchange Adjustment [1]	0.0	(20.4)
4. Change in Sinking Funds	99.6	95.0
5. Change in Guaranteed Debt	47.1	40.6
Decrease (Increase) in Government Debt	$ 45.5	$ (126.0)

[1] An exchange rate of $0.6242 U.S. per $1.00 Canadian has been used to convert U.S. dollar denominated debt at March 31, 2002 and March 31, 2003, compared to $0.6340 U.S. at March 31, 2001.

Cost of Servicing Gross Debt

In addition to interest payments, debt servicing costs include the amortization of gains or losses on debt that is denominated in foreign currencies resulting from a change in the value of the Canadian dollar, premiums, discounts, commissions and other costs related to the Province's debt.

The servicing costs for government gross debt are paid by the GRF and are shown in the Estimates as Vote 12.

Servicing costs of debt borrowed on behalf of Crown corporations are also paid by the General Revenue Fund and are reimbursed by the respective Crown corporations. These costs are shown in the Estimates as Vote 177.

Debt servicing costs, primarily interest payments, associated with the province's gross debt are estimated to total $947.3 million in 2002–03, $16.1 million higher than the 2001–02 forecast.

The cost of servicing government gross debt is estimated to be $12.5 million higher in 2002–03 than forecast for 2001–02. This increase is primarily attributable to a change in the mix of outstanding debt.

The 2002–03 debt servicing cost estimates are based on 3.0 per cent short term and 6.5 per cent long term interest rates. An exchange rate of $0.6242 U.S. per $1.00 Canadian has been used to convert U.S. dollar denominated debt as at March 31, 2002 and March 31, 2003.

A one percentage point increase in interest rates for a full year from levels assumed in the Budget would increase the estimated cost of servicing government gross debt in 2002–03 by approximately $6.3 million.

A one cent change in the value of the Canadian dollar compared to the U.S. dollar from the level assumed in the Budget would change the estimated cost in 2002–03 of servicing government gross debt by approximately $3.2 million.

Cost of Servicing Gross Debt
($ Millions)

	Estimated 2002–03	Forecast 2001–02
Crown Corporation Debt	$314.3	$310.7
Government Debt	633.0	620.5
Total Cost of Servicing Gross Debt	$947.3	$931.2

2002–03 Budget Details

General Revenue Fund
Statement of Revenue, Expenditure and Accumulated Deficit

	(thousands of dollars)		
	Estimated 2002–03	**Forecast 2001–02**	**Estimated 2001–02**
Revenue[1]	**$ 6,094,300**	$ 5,957,800	$6,041,700
Operating Expenditure [2]	**5,686,255**	5,747,588	5,662,124
Operating Surplus	**$ 408,045**	$ 210,212	$ 379,576
Servicing the Public Debt	**(633,000)**	(620,500)	(640,500)
Transfer from (to) Fiscal Stabilization Fund	**225,000**	410,700	263,700
Surplus for the Year	**$ 45**	$ 412	$ 2,776
Accumulated Deficit, Beginning of Year	**(7,010,447)**	(7,010,859)	(7,010,859)
Accumulated Deficit [3], End of Year	**$(7,010,402)**	$(7,010,447)	$(7,008,083)

[1] See Schedule of Revenue for details
[2] See Schedule of Expenditure for details
[3] The "Accumulated Deficit" is the amount by which expenditure has exceeded revenue since incorporation (in Saskatchewan's case, 1905) to the end of the fiscal year. In general, it is the sum of all the annual surpluses and deficits.

General Revenue Fund
Statement of Cash Flow

	(thousands of dollars)		
	Estimated 2002–03	**Forecast 2001–02**	**Estimated 2001–02**
Operating Activities			
Surplus for the Year	**$ 45**	$ 412	$ 2,776
Add Non-cash Items:			
Amortization of Foreign Exchange Gains and Losses	**18,688**	18,688	14,817
Loss on Loans and Investments	**1,200**	2,555	2,880
Net Change in Non-cash Operating Activities	**1,755**	(2,109)	1,255
Earnings Retained in Sinking Funds	**(38,016)**	(32,286)	(36,699)
Cash (for) from Operating Activities	**$ (16,328)**	$ (12,740)	$ (14,971)
Lending and Investing Activities			
Receipts [1]	**$ 529,041**	$ 450,350	$ 301,516
Disbursements [1]	**439,713**	512,412	360,137
Cash (for) from Lending and Investing Activities	**$ 89,328**	$ (62,062)	$ (58,621)
Financing Activities			
Borrowing	**$ 507,039**	$ 1,358,916	$ 890,453
Debt Repayment	**(514,439)**	(1,059,155)	(809,161)
Increase (Decrease) in Deposits Held	**(225,000)**	(414,947)	(263,700)
Cash (for) from Financing Activities	**$ (232,400)**	$ (115,186)	$ (182,408)
(Decrease) Increase in Cash [2]	**$ (159,400)**	$ (189,988)	$ (256,000)

[1] See Schedule of Lending and Investing Activities for details.
[2] Cash also includes temporary, short-term (less than 30 days) investments.

General Revenue Fund
Schedule of Revenue

	(thousands of dollars)		
	Estimated 2002–03	**Forecast 2001–02**	**Estimated 2001–02**
Taxes			
Corporation Capital	**$ 340,200**	$ 370,000	$ 367,700
Corporation Income	**118,500**	136,600	273,100
Fuel	**357,700**	355,000	367,700
Individual Income	**1,165,500**	1,197,400	1,184,900
Sales	**826,900**	775,500	795,500
Tobacco	**182,500**	122,000	124,600
Other	**66,200**	65,000	65,000
Taxes	**$ 3,057,500**	$ 3,021,500	$ 3,178,500
Non-Renewable Resources			
Natural Gas	**87,000**	127,400	167,900
Oil	**383,000**	496,700	511,500
Potash	**202,600**	161,000	160,900
Other	**38,200**	39,600	37,000
Non-Renewable Resources	**$ 710,800**	$ 824,700	$ 877,300
Transfers from Crown Entities			
Crown Investments Corporation of Saskatchewan	**$ 300,000**	$ 200,000	$ 200,000
Saskatchewan Liquor and Gaming Authority	**332,000**	317,700	312,700
Other Enterprises and Funds	**73,600**	45,200	45,000
Transfers from Crown Entities	**$ 705,600**	$ 562,900	$ 557,700
Other Revenue			
Fines, Forfeits and Penalties	**$ 13,700**	$ 14,900	$ 14,100
Interest, Premium, Discount and Exchange	**43,000**	41,500	47,300
Motor Vehicle Fees	**116,900**	114,000	112,700
Other Licences and Permits	**41,800**	39,800	47,500
Sales, Services and Service Fees	**68,300**	69,500	69,200
Transfers from Other Governments	**14,100**	16,100	17,500
Other	**21,200**	15,400	12,100
Other Revenue	**$ 319,000**	$ 311,200	$ 320,400
Own-Source Revenue	**$ 4,792,900**	$ 4,720,300	$ 4,933,900
Transfers from the Government of Canada			
Canada Health and Social Transfer	**$ 638,300**	$ 608,900	$ 594,000
Equalization Payments	**530,700**	492,000	377,000
Other	**132,400**	136,600	136,800
Transfers from the Government of Canada	**$ 1,301,400**	$ 1,237,500	$ 1,107,800
Revenue	**$ 6,094,300**	$ 5,957,800	$ 6,041,700

General Revenue Fund
Schedule of Expenditure

	(thousands of dollars)		
	Estimated 2002–03	**Forecast 2001–02**	**Estimated 2001–02**
Executive Branch of Government			
Agriculture, Food and Rural Revitalization	**$ 291,665**	$ 399,895	$ 333,403
Centenary Fund	**29,500**	30,000	30,000
Corrections and Public Safety	**108,543**	107,522	105,570
Culture, Youth and Recreation	**42,888**	43,012	45,551
Environment	**130,876**	141,091	133,589
– Forest Fire Contingency Fund	**–**	40,000	40,000
Executive Council	**7,436**	7,630	7,707
Finance	**38,572**	37,583	36,823
– Public Service Pensions and Benefits [1]	**188,713**	177,164	175,495
Government Relations and Aboriginal Affairs	**173,600**	159,083	154,298
Health	**2,335,016**	2,204,154	2,206,399
Highways and Transportation	**300,300**	311,085	311,692
Industry and Resources	**87,107**	114,352	111,087
Justice [2]	**184,206**	175,829	173,040
Labour	**13,834**	14,573	14,591
Learning	**969,176**	990,724	991,794
– Teachers' Pensions and Benefits	**105,398**	101,689	93,380
Public Service Commission	**8,614**	9,145	8,965
Saskatchewan Property Management Corporation	**21,613**	24,502	21,719
Saskatchewan Water Corporation	**7,747**	8,722	8,810
Social Services	**614,314**	623,773	631,916
Legislative Branch of Government			
Chief Electoral Officer	**811**	861	710
Conflict of Interest Commissioner	**122**	101	122
Information and Privacy Commissioner	**105**	87	105
Legislative Assembly	**17,721**	17,294	17,571
Ombudsman and Children's Advocate	**2,651**	2,706	2,651
Provincial Auditor	**5,727**	5,011	5,136
Operating Expenditure	**5,686,255**	5,747,588	5,662,124
Servicing the Public Debt	**633,000**	620,500	640,500
Expenditure	**$ 6,319,255**	$ 6,368,088	$ 6,302,624

[1] Includes public service pension expenditures related to all branches of government (executive, legislative and judicial).
[2] Includes expenditures for the judicial branch of government.

General Revenue Fund
Schedule of Borrowing Requirements

	(thousands of dollars)		
	Estimated 2002–03	**Forecast 2001–02**	**Estimated 2001–02**
Borrowing for Crown Corporations			
Agricultural Credit Corporation of Saskatchewan	**$ 9,434**	$ 11,800	$ 13,000
Education Infrastructure Financing Corporation ...	**89,200**	–	–
Information Services Corporation of Saskatchewan.	**7,000**	34,754	11,400
Municipal Financing Corporation of Saskatchewan	**4,000**	–	–
Saskatchewan Housing Corporation	**27,500**	24,500	51,000
Saskatchewan Opportunities Corporation	**20,000**	19,500	37,800
Saskatchewan Power Corporation	**–**	200,000	76,000
Saskatchewan Property Management Corporation	**–**	5,500	–
Saskatchewan Telecommunications Holding Corporation	**94,600**	–	8,900
Saskatchewan Water Corporation	**10,800**	3,386	8,200
SaskEnergy Incorporated	**–**	60,000	–
Borrowing for Crown Corporations	**$ 262,534**	$ 359,440	$ 206,300
Borrowing for Government	**244,505**	999,476	684,153
Borrowing Requirements	**$ 507,039**	$ 1,358,916	$ 890,453

General Revenue Fund
Schedule of Debt
As at March 31

	(thousands of dollars)		
	Estimated 2003	**Forecast 2002**	**Estimated 2002**
Gross Debt			
Crown Corporation Debt			
Agricultural Credit Corporationof Saskatchewan	**$ 34,751**	$ 45,751	$ 46,951
Crown Investments Corporation of Saskatchewan	**40,419**	175,027	175,027
Education Infrastructure Financing Corporation	**85,749**	–	–
Information Services Corporation of Saskatchewan	**62,000**	55,000	31,646
Municipal Financing Corporation of Saskatchewan	**13,391**	24,575	24,575
Saskatchewan Housing Corporation	**110,504**	139,959	166,459
Saskatchewan Opportunities Corporation	**168,765**	168,265	189,865
Saskatchewan Power Corporation	**1,934,287**	2,012,987	1,873,698
Saskatchewan Property Management Corporation	**5,500**	5,500	–
Saskatchewan Telecommunications Holding Corporation	**558,922**	464,322	470,752
Saskatchewan Water Corporation	**54,324**	44,193	49,007
SaskEnergy Incorporated	**747,487**	789,087	784,487
Crown Corporation Debt	**$ 3,816,099**	$ 3,924,666	$ 3,812,467
Government Debt	**8,275,465**	8,174,298	8,029,890
Gross Debt	**$12,091,564**	$12,098,964	$11,842,357
Guaranteed Debt			
Crown Corporations	**$ 27,938**	$ 35,258	$ 36,790
Other	**183,216**	230,344	223,600
Guaranteed Debt	**$ 211,154**	$ 265,602	$ 260,390
Less: Equity in Sinking Funds			
Crown Corporations	**$ 187,761**	$ 312,500	$ 312,493
Government	**701,825**	602,271	601,861
Equity in Sinking Funds	**$ 889,586**	$ 914,771	$ 914,354
Total Debt	**$11,413,132**	$11,449,795	$11,188,393
Crown Corporation Debt	**$ 3,656,276**	$ 3,647,424	$ 3,536,764
Government Debt	**7,756,856**	7,802,371	7,651,629
Total Debt	**$11,413,132**	$11,449,795	$11,188,393

Contact Information

For further information or additional copies, contact:

Saskatchewan Finance
2350 Albert St., 9th Floor
Regina, Saskatchewan
S4P 4A6
1-866-862-6246 or (306) 787-6768

All budget material is available online:
http://www.gov.sk.ca/finance/budget